Mantsopa Local Municipality (FS196)
Financial statements
for the year ended 30 June 2019

General Information

Legal form of entity	A municipality, which is an organ of state within the local sphere of government exercising legislative and executive authority.
Nature of business and principal activities	A local authority providing municipal services and maintaining the best interest of the community in the Mantsopa Municipal area.
Executive Committee	
Mayor	Clr ME Tsoene(Chairperson)
Councillors	Clr YJ Jacobs
	Clr T Halse
Grading of local authority	3
Chief Finance Officer (CFO)	SA Nyapholi
Accounting Officer	TP Masejane
Business address	38 Joubert Street Ladybrand 9745
Postal address	Private Bag X11 Ladybrand 9745
Bankers	ABSA Bank
Auditors	Auditor-General of South AFrica (AGSA) Registered Auditors
Attorneys	Majavu Attorneys, PO Box 62241, Marshalltown, 2107 Morobane Incorporated 21 Reid Street, Westdene, Bloemfontein Mthembu and Mahomed, 10 Gunn Street, Universitas,Bloemfontein
Telephone number	(051) 924 0654
Fax number	(051) 924 0020
Website	www.mantsopa.fs.gov.za

Index

The reports and statements set out below comprise the financial statements presented to the provincial legislature:

DBSA	Development Bank of South Africa
GRAP	Generally Recognised Accounting Practice
IAS	International Accounting Standards
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant
iGRAP	Interpretation of the Standards of Generally Recognised Accounting Practice
WIG	Water Infrastructure Grant

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the financial statements and was given unrestricted access to all financial records and related data.

The financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality’s business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality’s cash flow forecast for the year to 30 June 2020 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The financial statements are prepared on the basis that the municipality is a going concern and that the Mantsopa Local Municipality has neither the intention nor the need to liquidate or curtail materially the scale of the municipality.

Although the accounting officer are primarily responsible for the financial affairs of the municipality, they are supported by the municipality's external auditors.

The external auditors are responsible for independently reviewing and reporting on the municipality's financial statements. The financial statements have been examined by the municipality's external auditors and their report is presented on page 5.

The financial statements set out on pages 5 to 80, which have been prepared on the going concern basis, were approved by the accounting officer on 30 August 2019.

30/08/2019

TP Masejane
Accounting Officer

Accounting Officer's Report

The accounting officer submits his report for the year ended 30 June 2019.

1. Review of activities

Main business and operations

2. Going concern

We draw attention to the fact that at 30 June 2019, the municipality had an accumulated surplus of R 858 184 862 and that the municipality's total assets exceed its liabilities by R 858 184 862.

The financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

3. Subsequent events

Events identified after the reporting date has been disclosed note 53.

4. Accounting Officer's interest in contracts

The Accounting Officer Had no interest in any contracts.

5. Accounting policies

The financial statements prepared in accordance with the prescribed Standards of Generally Recognised Accounting Practices (GRAP) issued by the Accounting Standards Board as the prescribed framework by National Treasury.

6. Non-current assets

There were no major changes in the nature of the non-current assets of the municipality during the year:

7. Accounting Officer

The accounting officer of the municipality during the year and to the date of this report is as follows:

Name	Nationality
TP Masejane	RSA

8. Auditors

Auditor-General of South Africa (AGSA) will continue in office for the next financial period.

9. Retirement benefit obligation

Management performed an actuarial valuation of the Employee Benefits of the employer's liability arising from the post-retirement healthcare subsidy ("PRHS") payable to current and retired employees.

The valuation is in line with the requirements of GRAP 25 and the municipality has determined the items required for disclosure in terms of this standard.

Statement of Financial Position as at 30 June 2019

Figures in Rand	Note(s)	2019	2018 Restated*
Assets			
Current Assets			
Inventories	3	10 953	7 026
Other receivables from exchange transactions	4	4 614 422	5 476 720
Other receivables from non-exchange transactions	5	1 135 328	779 033
VAT receivable	6	28 416 684	28 275 232
Trade receivables from exchange transactions	13	78 429 396	55 886 476
Trade receivables from non-exchange transactions	42	18 016 859	12 625 746
Loans receivable	12	6 256	6 198
Cash and cash equivalents	7	321 687	3 530 634
		130 951 585	**106 587 065**
Non-Current Assets			
Investment property	8	201 562 480	201 562 480
Property, plant and equipment	9	861 884 663	865 787 804
Investments	10	1 115 195	1 161 950
Loans receivable	12	547 752	554 008
		1 065 110 090	**1 069 066 242**
Total Assets		**1 196 061 675**	**1 175 653 307**
Liabilities			
Current Liabilities			
Loans	16	4 940 479	1 509 404
Finance lease obligation	14	612 379	1 049 448
Payables from exchange transactions	18	273 615 917	213 874 058
Payables from non-exchange	19	3 611 636	2 366 865
Consumer deposits	20	2 437 864	1 694 456
Unspent conditional grants and receipts	15	-	346 009
Bank overdraft	7	197 225	-
		285 415 500	**220 840 240**
Non-Current Liabilities			
Loans	16	1 839 747	4 807 002
Finance lease obligation	14	446 138	612 379
Employee benefit obligation	11	22 828 312	25 539 000
Provisions	17	27 347 115	24 713 436
		52 461 312	**55 671 817**
Total Liabilities		**337 876 812**	**276 512 057**
Net Assets		**858 184 863**	**899 141 250**
Accumulated surplus		858 184 862	899 141 250

* See Note 43

Statement of Financial Performance

Figures in Rand	Note(s)	2019	2018 Restated*
Revenue			
Revenue from exchange transactions			
Service charges	22	110 971 754	100 718 328
Interest earned exchange transactions	21	31 131 533	22 678 747
Other income	24	2 461 272	3 355 968
Interest earned	25	203 096	763 992
Dividends earned	25	-	34 839
Total revenue from exchange transactions		**144 767 655**	**127 551 874**
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	26	14 610 586	13 936 227
Interest earned non-exchange transactions	26	2 932 443	1 498 556
Transfer revenue			
Government grants & subsidies	27	143 676 252	114 194 194
Public contributions and donations	28	-	2 324 715
Traffic fines	23	366 600	527 300
Total revenue from non-exchange transactions		**161 585 881**	**132 480 992**
Total revenue	21	**306 353 536**	**260 032 866**
Expenditure			
Employee related costs	29	(91 765 089)	(87 798 139)
Remuneration of councillors	30	(6 688 499)	(6 921 107)
Depreciation and amortisation	9	(54 556 592)	(53 612 922)
Impairment loss/ Reversal of impairments	9	(985 929)	(1 545)
Finance costs	31	(23 466 681)	(19 415 663)
Debt Impairment	32	(80 093 790)	(104 218 781)
Bulk purchases	33	(44 426 391)	(41 592 160)
Contracted services	34	(2 785 181)	(1 065 352)
Indigent support		(1 548 006)	(1 375 609)
Repairs and maintenance	8&9	(4 417 488)	(4 768 848)
General Expenses	35	(40 598 025)	(39 342 547)
Total expenditure		**(351 331 671)**	**(360 112 673)**
Operating deficit		**(44 978 135)**	**(100 079 807)**
Loss on disposal of assets and liabilities	9	(1 620 830)	(15 932)
Fair value adjustments	36	(46 755)	8 092 000
Actuarial gains/(losses)	11	5 693 000	3 613 684
		4 025 415	**11 689 752**
Deficit for the year		**(40 952 720)**	**(88 390 055)**

* See Note 43

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Opening balance as previously reported	987 459 723	987 459 723
Adjustments		
Correction of errors	71 582	71 582
Balance at 01 July 2017 as restated*	**987 531 305**	**987 531 305**
Changes in net assets		
Corrections	18 986 598	18 986 598
	18 986 598	18 986 598
Surplus previously reported	(107 376 653)	(107 376 653)
Total recognised income and expenses for the year	(88 390 055)	(88 390 055)
Total changes	(88 390 055)	(88 390 055)
Restated* Balance at 01 July 2018	**899 137 582**	**899 137 582**
Changes in net assets		
Surplus for the year	(40 952 720)	(40 952 720)
Total changes	(40 952 720)	(40 952 720)
Balance at 30 June 2019	**858 184 862**	**858 184 862**

* See Note 43

Cash Flow Statement

Figures in Rand	Note(s)	2019	2018 Restated*
Cash flows from operating activities			
Receipts			
Sale of goods and services		31 800 773	67 111 269
Grants		143 330 244	108 160 756
Interest income		34 267 072	763 992
Dividends received		-	34 839
		209 398 089	176 070 856
Payments			
Employee costs		(104 805 873)	(82 772 686)
Suppliers		(56 512 505)	(36 979 415)
Finance costs		2 370 683	(21 319 032)
		(158 947 695)	(141 071 133)
Net cash flows from operating activities	37	**50 450 394**	**34 999 723**
Cash flows from investing activities			
Purchase of property, plant and equipment	9	(53 259 454)	(34 330 704)
Proceeds from sale of loans receivable		6 198	(21 662)
Net cash flows from investing activities		**(53 253 256)**	**(34 352 366)**
Cash flows from financing activities			
Repayment of loans		-	412 501
Finance lease payments		(603 310)	(971 350)
Net cash flows from financing activities		**(603 310)**	**(558 849)**
Net increase/(decrease) in cash and cash equivalents		**(3 406 172)**	**2 343 427**
Cash and cash equivalents at the beginning of the year		3 530 634	1 187 207
Cash and cash equivalents at the end of the year	7	**124 462**	**3 530 634**

* See Note 43

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	96 942 477	3 290 138	**100 232 615**	110 971 754	**10 739 139**	54
Interest earned exchange	25 600 000	4 900 000	**30 500 000**	31 131 533	**631 533**	
Dividends received (trading)	33 675	-	**33 675**	-	**(33 675)**	
Other income - (rollup)	11 803 301	59 492	**11 862 793**	2 461 272	**(9 401 521)**	54
Interest received - investment	800 000	(585 000)	**215 000**	203 096	**(11 904)**	
Total revenue from exchange transactions	**135 179 453**	**7 664 630**	**142 844 083**	**144 767 655**	**1 923 572**	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	15 649 762	1 422 058	**17 071 820**	14 610 586	**(2 461 234)**	54
Interest earned non-exchange	2 400 000	500 000	**2 900 000**	2 932 443	**32 443**	
Transfer revenue						
Government grants & subsidies	139 415 000	(73 000)	**139 342 000**	143 676 252	**4 334 252**	54
Fines, Penalties and Forfeits	1 000 000	-	**1 000 000**	366 600	**(633 400)**	
Total revenue from non-exchange transactions	**158 464 762**	**1 849 058**	**160 313 820**	**161 585 881**	**1 272 061**	
Total revenue	**293 644 215**	**9 513 688**	**303 157 903**	**306 353 536**	**3 195 633**	
Expenditure						
Personnel	(85 949 311)	(5 141 630)	**(91 090 941)**	(91 765 089)	**(674 148)**	
Remuneration of councillors	(6 839 858)	-	**(6 839 858)**	(6 688 499)	**151 359**	
Repairs and maintenance	-	-	**-**	(4 417 488)	**(4 417 488)**	54
Depreciation and amortisation	(4 676 555)	(650 000)	**(5 326 555)**	(54 556 592)	**(49 230 037)**	54
Impairment loss/ Reversal of impairments	-	-	**-**	(985 929)	**(985 929)**	
Finance costs	-	-	**-**	(23 466 681)	**(23 466 681)**	54
Debt Impairment	(21 669 318)	(2 022 439)	**(23 691 757)**	(80 093 790)	**(56 402 033)**	
Bulk purchases	(40 611 035)	(431 030)	**(41 042 065)**	(44 426 391)	**(3 384 326)**	54
Contracted Services	(14 292 455)	(1 035 643)	**(15 328 098)**	(2 785 181)	**12 542 917**	54
Indigent support	-	-	**-**	(1 548 006)	**(1 548 006)**	
General Expenses	(55 749 071)	(180 020)	**(55 929 091)**	(40 598 025)	**15 331 066**	54
Total expenditure	**(229 787 603)**	**(9 460 762)**	**(239 248 365)**	**(351 331 671)**	**(112 083 306)**	
Operating surplus/(loss)	**63 856 612**	**52 926**	**63 909 538**	**(44 978 135)**	**(108 887 673)**	
Loss on disposal of assets and liabilities	-	-	**-**	(1 620 830)	**(1 620 830)**	
Fair value adjustments	-	-	**-**	(46 755)	**(46 755)**	
Actuarial gains/losses	-	-	**-**	5 693 000	**5 693 000**	54
	-	**-**	**-**	**4 025 415**	**4 025 415**	
Deficit before taxation	**63 856 612**	**52 926**	**63 909 538**	**(40 952 720)**	**(104 862 258)**	

Mantsopa Local Municipality (FS196)
Financial Statements for the year ended 30 June 2019

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Position						
Assets						
Current Assets						
Inventories	-	-	**-**	10 953	**10 953**	
Other receivables from exchange transactions	5 265 000	-	**5 265 000**	4 614 422	**(650 578)**	
Other receivables from non-exchange transactions	-	-	**-**	1 135 328	**1 135 328**	
VAT receivable	-	-	**-**	28 416 684	**28 416 684**	54
Trade receivables from exchange	97 774 066	(42 361)	**97 731 705**	78 429 396	**(19 302 309)**	54
Loans receivable	6 318	-	**6 318**	6 256	**(62)**	
Trade receivables from non-exchange transactions	22 500 000	-	**22 500 000**	18 016 859	**(4 483 141)**	54
Cash and cash equivalents	105 300	-	**105 300**	321 687	**216 387**	
	125 650 684	**(42 361)**	**125 608 323**	**130 951 585**	**5 343 262**	
Non-Current Assets						
Investment property	65 889 795	-	**65 889 795**	201 562 480	**135 672 685**	54
Property, plant and equipment	1 125 412 583	(34 023)	**1 125 378 560**	861 884 663	**(263 493 897)**	54
Investments	1 539 962	-	**1 539 962**	1 115 195	**(424 767)**	
Loans receivable	210 600	(210 600)	**-**	547 752	**547 752**	
	1 193 052 940	**(244 623)**	**1 192 808 317**	**1 065 110 090**	**(127 698 227)**	
Total Assets	**1 318 703 624**	**(286 984)**	**1 318 416 640**	**1 196 061 675**	**(122 354 965)**	
Liabilities						
Current Liabilities						
Loans	990 146	-	**990 146**	4 940 479	**3 950 333**	
Finance lease obligation	-	-	**-**	612 379	**612 379**	
Payables from exchange transactions	75 461 574	(34 023)	**75 427 551**	273 615 917	**198 188 366**	54
Payables from non-exchange	-	-	**-**	3 611 636	**3 611 636**	54
Consumer deposits	1 778 161	-	**1 778 161**	2 437 864	**659 703**	
Bank overdraft	-	-	**-**	197 225	**197 225**	
	78 229 881	**(34 023)**	**78 195 858**	**285 415 500**	**207 219 642**	
Non-Current Liabilities						
Loans	6 112 628	-	**6 112 628**	1 839 747	**(4 272 881)**	
Finance lease obligation	-	-	**-**	446 138	**446 138**	
Employee benefit obligation	1 506 671	-	**1 506 671**	22 828 312	**21 321 641**	54
Provisions	1 813 698	-	**1 813 698**	27 347 115	**25 533 417**	54
	9 432 997	**-**	**9 432 997**	**52 461 312**	**43 028 315**	
Total Liabilities	**87 662 878**	**(34 023)**	**87 628 855**	**337 876 812**	**250 247 957**	
Net Assets	**1 231 040 746**	**(252 961)**	**1 230 787 785**	**858 184 863**	**(372 602 922)**	
Accumulated surplus	1 231 040 746	(358 261)	**1 230 682 485**	858 184 863	**(372 497 622)**	
Undefined Difference	**-**	**105 300**	**105 300**	**-**	**(105 300)**	
Total Net Assets	**1 231 040 746**	**(358 261)**	**1 230 682 485**	**858 184 863**	**(372 497 622)**	

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Cash Flow Statement						
Cash flows from operating activities						
Receipts						
Sale of goods and services	132 526 000	(40 261 000)	**92 265 000**	67 198 765	**(25 066 235)**	54
Grants	139 415 000	(73 000)	**139 342 000**	139 341 000	**(1 000)**	
Dividends received	34 000	-	**34 000**	203 096	**169 096**	
	271 975 000	**(40 334 000)**	**231 641 000**	**206 742 861**	**(24 898 139)**	
Payments						
Employee costs	(92 959 000)	(4 000 000)	**(96 959 000)**	(87 244 182)	**9 714 818**	54
Suppliers	(69 720 000)	(1 142 000)	**(70 862 000)**	(61 689 828)	**9 172 172**	54
Finance costs	-	-	**-**	(2 712 529)	**(2 712 529)**	54
	(162 679 000)	**(5 142 000)**	**(167 821 000)**	**(151 646 539)**	**16 174 461**	
Net cash flows from operating activities	**109 296 000**	**(45 476 000)**	**63 820 000**	**55 096 322**	**(8 723 678)**	
Cash flows from investing activities						
Purchase of property, plant and equipment	(63 848 000)	34 000	**(63 814 000)**	(58 432 247)	**5 381 753**	54
Proceeds from sale of loans receivable	-	-	**-**	6 198	**6 198**	
Net cash flows from investing activities	**(63 848 000)**	**34 000**	**(63 814 000)**	**(58 426 049)**	**5 387 951**	
Cash flows from financing activities						
Repayment of loans	-	-	**-**	463 820	**463 820**	
Finance lease payments	-	-	**-**	(603 310)	**(603 310)**	
Net cash flows from financing activities	**-**	**-**	**-**	**(139 490)**	**(139 490)**	
Net increase/(decrease) in cash and cash equivalents	45 448 000	(45 442 000)	**6 000**	(3 469 217)	**(3 475 217)**	
Cash and cash equivalents at the beginning of the year	45 547 000	(45 442 000)	**105 000**	3 529 470	**3 424 470**	
Cash and cash equivalents at the end of the year	**90 995 000**	**(90 884 000)**	**111 000**	**60 253**	**(50 747)**	

1. Presentation of Financial Statements

The financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these financial statements, are disclosed below.

1.1 Presentation currency

These financial statements are presented in South African Rand, which is the functional currency of the municipality.

1.2 Going concern assumption

These financial statements have been prepared based on the expectation that the municipality will continue to operate as a going concern for at least the next 12 months.

1.3 Significant judgements and sources of estimation uncertainty

In preparing the financial statements, management is required to make estimates and assumptions that affect the amounts represented in the financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the financial statements. Significant judgements include:

Trade receivables / Held to maturity investments and/or loans and receivables

The municipality assesses its trade receivables, held to maturity investments and loans and receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the surplus makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables, held to maturity investments and loans and receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

Fair value estimation

The fair value of financial instruments traded in active markets (such as trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the municipality is the current bid price.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the municipality for similar financial instruments.

Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that assumptions may change which may then impact our estimations and may then require a material adjustment to the carrying value of tangible assets.

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable.Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of goodwill and tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors.

1.3 Significant judgements and sources of estimation uncertainty (continued)

Provisions

Provisions were raised and management determined an estimate based on the information available. Provisions are measured at management's best estimate of the expenditure required to settle the obligation at the reporting date, and are discounted to the present value where the time value effect is material.

Useful lives of and residual values

The municipality's management determines the estimated useful lives and related depreciation charges for property, plant and equipment as well as the intangible assets. The municipality re-assess the useful lives and the residual values on an annual basis, considering the condition and use of the individual assets. This estimate is based on industry norm. Management will increase the depreciation charge where useful lives are less than previously estimated useful lives.

Post retirement benefits

The present value of the post retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post retirement obligations.

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the municipality considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Effective interest rate

The municipality uses an appropriate interest rate, taking into account guidance provided in the accounting standards, and applying professional judgement to the specific circumstances, to discount future cash flows.

Appropriate adjustments have been made to compensate for the effect of deferred settlement terms that materially impact on the fair value of the financial instruments, revenue and expenses at initial recognition. The adjustments require a degree of estimation around the discount rate and periods used.

Allowance for doubtful debts

On debtors an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the debtors carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

GRAP 24 : Presentation of budget information

The comparison of budget and actual amounts present separately for each level of legislative oversight:
the approved and final budget amounts, and;
the actual amounts on a comparable basis.

1.4 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations

1.4 Investment property (continued)

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Substantive rights and binding agreements are applied to confirm control over land as part of recognition criteria.Physical verification of these properties together with the terms of binding agreements are used to determine control of the land. The municipality does not control the land where the land is occupied by a third party and a binding agreement does not establish substantive rights.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

Fair value

Subsequent to initial measurement investment property is measured at fair value.

The fair value of investment property reflects market conditions at the reporting date.

A gain or loss arising from a change in fair value is included in net surplus or deficit for the period in which it arises.

If the entity determines that the fair value of an investment property under construction is not reliably determinable but expects the fair value of the property to be reliably measurable when construction is complete, it measures that investment property under construction at cost until either its fair value becomes reliably determinable or construction is completed (whichever is earlier). If the entity determines that the fair value of an investment property (other than an investment property under construction) is not reliably determinable on a continuing basis, the entity measures that investment property using the cost model (as per the accounting policy on Property, plant and equipment). The residual value of the investment property is then assumed to be zero. The entity applies the cost model (as per the accounting policy on Property, plant and equipment) until disposal of the investment property.

Once the entity becomes able to measure reliably the fair value of an investment property under construction that has previously been measured at cost, it measures that property at its fair value. Once construction of that property is complete, it is presumed that fair value can be measured reliably. If this is not the case, the property is accounted for using the cost model in accordance with the accounting policy on Property, plant and equipment.

All properties held to earn market-related rentals or for capital appreciation or both and that are not used for administrative purposes and that will not be sold within the next 12 months are classified as Investment Properties.

Compensation from third parties for investment property that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

1.5 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Accounting Policies

1.5 Property, plant and equipment (continued)

Substantive rights and binding agreements are applied to confirm control over land as part of recognition criteria.Physical verification of these properties together with the terms of binding agreements are used to determine control of the land. The municipality does not control the land where the land is occupied by a third party and a binding agreement does not establish substantive rights.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Items such as spare parts, standby equipment and servicing equipment are recognised when they meet the definition of property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Depreciation method	Average useful life
Land	Straight line	Infinite
Buildings	Straight line	25 - 50 years
- Improvements	Straight line	25 - 50 years
Plant and machinery	Straight line	3 - 10 years
Furniture and fixtures	Straight line	3 - 10 years
Motor vehicles	Straight line	3 - 7 years
Heavy machinery and vehicles	Straight line	3 - 10 years
Office equipment	Straight line	2 - 7 years
Infrastructure assets		
- Electricity	Straight line	7 - 50 years
- Roads	Straight line	8 - 50 years
- Storm water	Straight line	30 - 50 years

1.5 Property, plant and equipment (continued)

Community assets		
- Buildings	Straight line	20 - 50 years
- Recreational facilities	Straight line	7 - 50 years
Other property, plant and equipment		
- Other equiment	Straight line	2 - 10 years
- Fences and gates	Straight line	15 - 25 years
- Paving	Straight line	50 years
Other equipment	Straight line	3 - 10 years
Other leased Assets - Computer equipment and copiers	Straight line	3 years

The depreciable amount of an asset is allocated on a systematic basis over its useful life.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation method used reflects the pattern in which the asset's future economic benefits or service potential are expected to be consumed by the municipality. The depreciation method applied to an asset is reviewed at least at each reporting date and, if there has been a significant change in the expected pattern of consumption of the future economic benefits or service potential embodied in the asset, the method is changed to reflect the changed pattern. Such a change is accounted for as a change in an accounting estimate.

The municipality assesses at each reporting date whether there is any indication that the municipality expectations about the residual value and the useful life of an asset have changed since the preceding reporting date. If any such indication exists, the municipality revises the expected useful life and/or residual value accordingly. The change is accounted for as a change in an accounting estimate.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item

The municipality separately discloses expenditure to repair and maintain property, plant and equipment in the notes to the financial statements (see note 9).

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note 9).

1.6 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

A concessionary loan is a loan granted to or received by an entity on terms that are not market related.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Derecognition is the removal of a previously recognised financial asset or financial liability from an entity's statement of financial position.

1.6 Financial instruments (continued)

A derivative is a financial instrument or other contract with all three of the following characteristics:

- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the ‘underlying’).
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.
- It is settled at a future date.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, an entity shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see the Standard of GRAP on Revenue from Exchange Transactions), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm’s length transaction.

Financial assets consist of other receivables from exchange and non-exchange transactions, vat receivable, consumer debtors, loans receivables, cash and cash equivalent and investments.

Cash includes cash on hand (including petty cash) and cash with banks (including call deposits). Cash equivalents are short-term highly liquid investments, readily convertible into known amounts of cash and are subject to an insignificant risk of change in value. Cash and cash equivalents are carried at amortised cost. Bank overdrafts are recorded based on the facility utilised. Finance charges on bank overdraft are expensed as incurred. Amounts owing in respect of bank overdrafts are carried at amortised cost.

For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held on call with banks, net of bank overdrafts

Financial liabilities consist of payables from exchange and non-exchange transactions, consumer deposits and bank overdrafts.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

A financial liability is any liability that is a contractual obligation to:

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Liquidity risk is the risk encountered by an entity in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

Loans payable are financial liabilities, other than short-term payables on normal credit terms.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

1.6 Financial instruments (continued)

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

A residual interest is any contract that manifests an interest in the assets of an entity after deducting all of its liabilities. A residual interest includes contributions from owners, which may be shown as:

- equity instruments or similar forms of unitised capital;
- a formal designation of a transfer of resources (or a class of such transfers) by the parties to the transaction as forming part of an entity's net assets, either before the contribution occurs or at the time of the contribution; or
- a formal agreement, in relation to the contribution, establishing or increasing an existing financial interest in the net assets of an entity.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:

- the entity designates at fair value at initial recognition; or
- are held for trading.

Financial instruments at cost are investments in residual interests that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

Financial instruments at fair value comprise financial assets or financial liabilities that are:

- derivatives;
- combined instruments that are designated at fair value;
- instruments held for trading. A financial instrument is held for trading if:
  - it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
  - on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking;
  - non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; and
  - financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

Classification

The entity has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Other receivables from exchange transactions	Financial asset measured at amortised cost
Other receivables from non-exchange transactions	Financial asset measured at amortised cost
Receivables from exchange transactions	Financial asset measured at amortised cost
Receivables from non-exchange transactions	Financial asset measured at amortised cost
Cash and cash equivalents	Financial asset measured at amortised cost
Vat receivable	Financial asset measured at amortised cost
Other financial assets	Financial asset measured at fair value
Long-term receivables	Financial asset measured at amortised cost

1.6 Financial instruments (continued)

The entity has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Other financial liabilities	Financial liability measured at amortised cost
Payables from exchange transactions	Financial liability measured at amortised cost
Payables from non-exchange transactions	Financial liability measured at amortised cost
Consumer deposits	Financial liability measured at amortised cost
Vat Payable	Financial liability measured at amortised cost

Initial recognition

The entity recognises a financial asset or a financial liability in its statement of financial position when the entity becomes a party to the contractual provisions of the instrument.

The entity recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

The entity measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

The entity measures a financial asset and financial liability initially at its fair value [if subsequently measured at fair value].

The entity first assesses whether the substance of a concessionary loan is in fact a loan. On initial recognition, the entity analyses a concessionary loan into its component parts and accounts for each component separately. The entity accounts for that part of a concessionary loan that is:
- a social benefit in accordance with the Framework for the Preparation and Presentation of Financial Statements, where it is the issuer of the loan; or
- non-exchange revenue, in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers), where it is the recipient of the loan.

Subsequent measurement of financial assets and financial liabilities

The entity measures all financial assets and financial liabilities after initial recognition using the following categories:
- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

Fair value measurement considerations

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the entity establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm’s length exchange motivated by normal operating considerations. Valuation techniques include using recent arm’s length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the entity uses that technique. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity-specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, an municipality calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on any available observable market data.

The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.

1.6 Financial instruments (continued)

Reclassification

The entity does not reclassify a financial instrument while it is issued or held unless it is:
- combined instrument that is required to be measured at fair value; or
- an investment in a residual interest that meets the requirements for reclassification.

Where the entity cannot reliably measure the fair value of an embedded derivative that has been separated from a host contract that is a financial instrument at a subsequent reporting date, it measures the combined instrument at fair value. This requires a reclassification of the instrument from amortised cost or cost to fair value.

If fair value can no longer be measured reliably for an investment in a residual interest measured at fair value, the entity reclassifies the investment from fair value to cost. The carrying amount at the date that fair value is no longer available becomes the cost.

If a reliable measure becomes available for an investment in a residual interest for which a measure was previously not available, and the instrument would have been required to be measured at fair value, the entity reclassifies the instrument from cost to fair value.

Gains and losses

A gain or loss arising from a change in the fair value of a financial asset or financial liability measured at fair value is recognised in surplus or deficit.

For financial assets and financial liabilities measured at amortised cost or cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, or through the amortisation process.

Impairment and uncollectibility of financial assets

The entity assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Financial assets measured at amortised cost:

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset’s original effective interest rate. The carrying amount of the asset is reduced directly OR through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed directly OR by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

Financial assets measured at cost:

If there is objective evidence that an impairment loss has been incurred on an investment in a residual interest that is not measured at fair value because its fair value cannot be measured reliably, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

1.6 Financial instruments (continued)

Presentation

Interest relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Dividends or similar distributions relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Losses and gains relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Distributions to holders of residual interests are recognised by the entity directly in net assets. Transaction costs incurred on residual interests are accounted for as a deduction from net assets. Income tax [where applicable] relating to distributions to holders of residual interests and to transaction costs incurred on residual interests are accounted for in accordance with the International Accounting Standard on Income Taxes.

A financial asset and a financial liability are only offset and the net amount presented in the statement of financial position when the entity currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

In accounting for a transfer of a financial asset that does not qualify for derecognition, the entity does not offset the transferred asset and the associated liability.

1.7 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

Finance leases - lessor

The municipality recognises finance lease receivables as assets on the statement of financial position. Such assets are presented as a receivable at an amount equal to the net investment in the lease.

Finance revenue is recognised based on a pattern reflecting a constant periodic rate of return on the municipality's net investment in the finance lease.

Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

1.7 Leases (continued)

Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

Income for leases is disclosed under revenue in statement of financial performance.

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

1.8 Inventories

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for;
- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the weighted average cost formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1.9 Impairment of cash-generating assets

Cash-generating assets are assets used with the objective of generating a commercial return. Commercial return means that positive cash flows are expected to be significantly higher than the cost of the asset.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset’s future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

1.9 Impairment of cash-generating assets (continued)

A cash-generating unit is the smallest identifiable group of assets used with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Useful life is either:
- the period of time over which an asset is expected to be used by the municipality; or
- the number of production or similar units expected to be obtained from the asset by the municipality.

Judgements made by management in applying the criteria to designate assets as cash-generating assets or non-cash-generating assets, are as follows:

Identification

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also tests a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Value in use

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

When estimating the value in use of an asset, the municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the municipality applies the appropriate discount rate to those future cash flows.

Recognition and measurement (individual asset)

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standard of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

1.10 Impairment of non-cash-generating assets

Cash-generating assets are assets used with the objective of generating a commercial return. Commercial return means that positive cash flows are expected to be significantly higher than the cost of the asset.

Non-cash-generating assets are assets other than cash-generating assets.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets managed with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Useful life is either:
- the period of time over which an asset is expected to be used by the municipality; or
- the number of production or similar units expected to be obtained from the asset by the municipality.

Judgements made by management in applying the criteria to designate assets as non-cash-generating assets or cash-generating assets, are as follows:

Identification

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

Irrespective of whether there is any indication of impairment, the entity also tests a non-cash-generating intangible asset with an indefinite useful life or a non-cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable service amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Value in use

Value in use of non-cash-generating assets is the present value of the non-cash-generating assets remaining service potential.

The present value of the remaining service potential of a non-cash-generating assets is determined using the following approach:

1.10 Impairment of non-cash-generating assets (continued)

Recognition and measurement

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued non-cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the non-cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standards of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

1.11 Employee benefits

Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees.

A qualifying insurance policy is an insurance policy issued by an insurer that is not a related party (as defined in the Standard of GRAP on Related Party Disclosures) of the reporting entity, if the proceeds of the policy can be used only to pay or fund employee benefits under a defined benefit plan and are not available to the reporting entity's own creditors (even in liquidation) and cannot be paid to the reporting entity, unless either:

- the proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations; or
- the proceeds are returned to the reporting entity to reimburse it for employee benefits already paid.

Termination benefits are employee benefits payable as a result of either:

- an entity's decision to terminate an employee's employment before the normal retirement date; or
- an employee's decision to accept voluntary redundancy in exchange for those benefits.

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within twelve months after the end of the period in which the employees render the related service.

Vested employee benefits are employee benefits that are not conditional on future employment.

Composite social security programmes are established by legislation and operate as multi-employer plans to provide post-employment benefits as well as to provide benefits that are not consideration in exchange for service rendered by employees.

A constructive obligation is an obligation that derives from an entity's actions where by an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities and as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:

- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

1.11 Employee benefits (continued)

When an employee has rendered service to the entity during a reporting period, the entity recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:
- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the entity recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The entity measures the expected cost of accumulating compensated absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The entity recognise the expected cost of bonus, incentive and performance related payments when the entity has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the entity has no realistic alternative but to make the payments.

Post-employment benefits

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment.

Post-employment benefit plans are formal or informal arrangements under which an entity provides post-employment benefits for one or more employees.

Multi-employer plans are defined contribution plans (other than state plans and composite social security programmes) or defined benefit plans (other than state plans) that pool the assets contributed by various entities that are not under common control and use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees concerned.

Multi-employer plans and/or State plans and/or Composite social security programmes

The entity classifies a multi-employer plan and/or state plans and/or composite social security programmes as a defined contribution plan or a defined benefit plan under the terms of the plan (including any constructive obligation that goes beyond the formal terms).

Where a plan is a defined contribution plan, the entity accounts for in the same way as for any other defined contribution plan.

Where a plan is a defined benefit plan, the entity account for its proportionate share of the defined benefit obligation, plan assets and cost associated with the plan in the same way as for any other defined benefit plan.

When sufficient information is not available to use defined benefit accounting for a plan, that is a defined benefit plan, the entity account for the plan as if it was a defined contribution plan.

Post-employment benefits: Defined contribution plans

Defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

When an employee has rendered service to the entity during a reporting period, the entity recognise the contribution payable to a defined contribution plan in exchange for that service:
- as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the reporting date, an entity recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the contribution in the cost of an asset.

Where contributions to a defined contribution plan do not fall due wholly within twelve months after the end of the reporting period in which the employees render the related service, they are discounted. The rate used to discount reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the obligation.

1.11 Employee benefits (continued)

Post-employment benefits: Defined benefit plans

Defined benefit plans are post-employment benefit plans other than defined contribution plans.

Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions. In measuring its defined benefit liability the entity recognise actuarial gains and losses in surplus or deficit in the reporting period in which they occur.

Assets held by a long-term employee benefit fund are assets (other than non-transferable financial instruments issued by the reporting entity) that are held by an entity (a fund) that is legally separate from the reporting entity and exists solely to pay or fund employee benefits and are available to be used only to pay or fund employee benefits, are not available to the reporting entity's own creditors (even in liquidation), and cannot be returned to the reporting entity, unless either:

- the remaining assets of the fund are sufficient to meet all the related employee benefit obligations of the plan or the reporting entity; or
- the assets are returned to the reporting entity to reimburse it for employee benefits already paid.

Current service cost is the increase in the present value of the defined benefit obligation resulting from employee service in the current period.

Interest cost is the increase during a period in the present value of a defined benefit obligation which arises because the benefits are one period closer to settlement.

Past service cost is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service cost may be either positive (when benefits are introduced or changed so that the present value of the defined benefit obligation increases) or negative (when existing benefits are changed so that the present value of the defined benefit obligation decreases). In measuring its defined benefit liability the entity recognise past service cost as an expense in the reporting period in which the plan is amended.

Plan assets comprise assets held by a long-term employee benefit fund and qualifying insurance policies.

The present value of a defined benefit obligation is the present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

The return on plan assets is interest, dividends or similar distributions and other revenue derived from the plan assets, together with realised and unrealised gains or losses on the plan assets, less any costs of administering the plan (other than those included in the actuarial assumptions used to measure the defined benefit obligation) and less any tax payable by the plan itself.

The entity account not only for its legal obligation under the formal terms of a defined benefit plan, but also for any constructive obligation that arises from the entity's informal practices. Informal practices give rise to a constructive obligation where the entity has no realistic alternative but to pay employee benefits. An example of a constructive obligation is where a change in the entity's informal practices would cause unacceptable damage to its relationship with employees.

The amount recognised as a defined benefit liability is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly;
- plus any liability that may arise as a result of a minimum funding requirement

The amount determined as a defined benefit liability may be negative (an asset). The entity measures the resulting asset at the lower of:

- the amount determined above; and
- the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The present value of these economic benefits is determined using a discount rate which reflects the time value of money.

Any adjustments arising from the limit above is recognised in surplus or deficit.

The entity determines the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity such that the amounts recognised in the financial statements do not differ materially from the amounts that would be determined at the reporting date.

1.11 Employee benefits (continued)

The entity recognises the net total of the following amounts in surplus or deficit, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement rights;
- actuarial gains and losses;
- past service cost;
- the effect of any curtailments or settlements; and
- the effect of applying the limit on a defined benefit asset (negative defined benefit liability).

The entity uses the Projected Unit Credit Method to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost. The Projected Unit Credit Method (sometimes known as the accrued benefit method pro-rated on service or as the benefit/years of service method) sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, an entity shall attribute benefit to periods of service under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, an entity shall attribute benefit on a straight-line basis from:

- the date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service); until
- the date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan. The results of the valuation are updated for any material transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the reporting date.

The entity recognises gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on a curtailment or settlement comprises:

- any resulting change in the present value of the defined benefit obligation; and
- any resulting change in the fair value of the plan assets.

Before determining the effect of a curtailment or settlement, the entity re-measure the obligation (and the related plan assets, if any) using current actuarial assumptions (including current market interest rates and other current market prices).

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is presented as the net of the amount recognised for a reimbursement.

The entity offsets an asset relating to one plan against a liability relating to another plan when the entity has a legally enforceable right to use a surplus in one plan to settle obligations under the other plan and intends either to settle the obligations on a net basis, or to realise the surplus in one plan and settle its obligation under the other plan simultaneously.

Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

Financial assumptions are based on market expectations, at the reporting date, for the period over which the obligations are to be settled.

The rate used to discount post-employment benefit obligations (both funded and unfunded) reflect the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the post-employment benefit obligations.

1.11 Employee benefits (continued)

Post-employment benefit obligations are measured on a basis that reflects:
- estimated future salary increases;
- the benefits set out in the terms of the plan (or resulting from any constructive obligation that goes beyond those terms) at the reporting date; and
- estimated future changes in the level of any state benefits that affect the benefits payable under a defined benefit plan, if, and only if, either:
- those changes were enacted before the reporting date; or
- past history, or other reliable evidence, indicates that those state benefits will change in some predictable manner, for example, in line with future changes in general price levels or general salary levels.

Assumptions about medical costs take account of estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.

Other post retirement obligations

The municipality provides post-retirement health care benefits, housing subsidies and gratuities upon retirement to some retirees.

The entitlement to post-retirement health care benefits is based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment. Independent qualified actuaries carry out valuations of these obligations. The municipality also provides a gratuity and housing subsidy on retirement to certain employees. An annual charge to income is made to cover both these liabilities.

The amount recognised as a liability for other long-term employee benefits is the net total of the following amounts:
- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly.

The entity shall recognise the net total of the following amounts as expense or revenue, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:
- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement right recognised as an asset;
- actuarial gains and losses, which shall all be recognised immediately;
- past service cost, which shall all be recognised immediately; and
- the effect of any curtailments or settlements.

Termination benefits

The entity recognises termination benefits as a liability and an expense when the entity is demonstrably committed to either:
- terminate the employment of an employee or group of employees before the normal retirement date; or
- provide termination benefits as a result of an offer made in order to encourage voluntary redundancy.

The entity is demonstrably committed to a termination when the entity has a detailed formal plan for the termination and is without realistic possibility of withdrawal. The detailed plan includes [as a minimum]:
- the location, function, and approximate number of employees whose services are to be terminated;
- the termination benefits for each job classification or function; and
- the time at which the plan will be implemented.

Implementation begins as soon as possible and the period of time to complete implementation is such that material changes to the plan are not likely.

Where termination benefits fall due more than 12 months after the reporting date, they are discounted using an appropriate discount rate. The rate used to discount the benefit reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the benefit.

In the case of an offer made to encourage voluntary redundancy, the measurement of termination benefits shall be based on the number of employees expected to accept the offer.

1.12 Provisions and contingencies

Provisions are recognised when:
- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating surplus (deficit).

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

A constructive obligation to restructure arises only when an entity:
- has a detailed formal plan for the restructuring, identifying at least:
  - the activity/operating unit or part of an activity/operating unit concerned;
  - the principal locations affected;
  - the location, function, and approximate number of employees who will be compensated for services being terminated;
  - the expenditures that will be undertaken; and
  - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:
- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality

No obligation arises as a consequence of the sale or transfer of an operation until the municipality is committed to the sale or transfer, that is, there is a binding arrangement.

After their initial recognition contingent liabilities recognised in entity combinations that are recognised separately are subsequently measured at the higher of:
- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 40.

1.13 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:
- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by .

Interest, royalties and dividends

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends or similar distributions is recognised when:
- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

Royalties are recognised as they are earned in accordance with the substance of the relevant agreements.

Dividends or similar distributions are recognised, in surplus or deficit, when the municipality's right to receive payment has been established.

1.13 Revenue from exchange transactions (continued)

Service fees included in the price of the product are recognised as revenue over the period during which the service is performed.

1.14 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by a municipality, which represents an increase in net assets, other than increases relating to contributions from owners.

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Control of an asset arise when the municipality can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

Expenses paid through the tax system are amounts that are available to beneficiaries regardless of whether or not they pay taxes.

Fines are economic benefits or service potential received or receivable by entities, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, a municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting municipality.

Tax expenditures are preferential provisions of the tax law that provide certain taxpayers with concessions that are not available to others.

The taxable event is the event that the government, legislature or other authority has determined will be subject to taxation.

Taxes are economic benefits or service potential compulsorily paid or payable to entities, in accordance with laws and or regulations, established to provide revenue to government. Taxes do not include fines or other penalties imposed for breaches of the law.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

1.14 Revenue from non-exchange transactions (continued)

Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

Transfers

Apart from Services in kind, which are not recognised, the municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

The municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

Transferred assets are measured at their fair value as at the date of acquisition.

Fines

Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset.

Assets arising from fines are measured at the best estimate of the inflow of resources to the municipality.

Where the municipality collects fines in the capacity of an agent, the fine will not be revenue of the collecting entity.

Gifts and donations, including goods in-kind

Gifts and donations, including goods in kind, are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

Assessment rates

Except for financial guarantee contracts, the municipality recognise services in-kind that are significant to its operations and/or service delivery objectives as assets and recognise the related revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

Where services in-kind are not significant to the municipality’s operations and/or service delivery objectives and/or do not satisfy the criteria for recognition, the municipality disclose the nature and type of services in-kind received during the reporting period.

1.15 Borrowing costs

Borrowing costs are interest and other expenses incurred by an entity in connection with the borrowing of funds.

Borrowing costs are recognised as an expense in the period in which they are incurred.

1.16 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

1.17 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.18 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.19 Irregular expenditure

Irregular expenditure, in relation to a municipality or municipal entity, means:
(a) expenditure incurred by a muncipality or municipal entity in contravention of, or that is not in accordance with, a requirement of the Municipal Finance Management Act, and which has not been condoned in terms of that act.
(b) expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of the Municipal Systems Act, and which has not been condoned in terms of that act.
(c) expenditure incurred by a municipality in contravention of, or that is not in accordance with, a requirement of the Public Office-Bearers Act, or
(d) expenditure incurred by a municipality or municipal entity in contravention of, that is not in accordance with, a requirement of the supply chain management policy of the municipality, and which has not been condoned in terms of such policy, but excludes expenditure which falls within the definition of "unauthorised expendiure"

Irregular expenditure that was incurred and identified during the current financial and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.20 Use of estimates

The preparation of financial statements in conformity with Standards of GRAP requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the municipality's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in the relevant sections of the financial statements. Although these estimates are based on management's best knowledge of current events and actions they may undertake in the future, actual results ultimately may differ from those estimates.

1.21 Value added tax

The municipality is registered with SARS for VAT on the payment basis, in accordance with Sec15(2) of the Value-Added-Tax Act, 1991 (Act No. 89 of 1991).

1.22 Related parties

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

1.23 Commitments

Items are classified as commitments where the Municipality commits itself to future transactions that will normally result in the outflow of resources.

Capital commitments are not recognised in the statement of financial position as a liability but are included in the disclosure notes in the following cases:

- Approved and contracted commitments, where the expenditure has been approved and the contract has been awarded at the reporting date, where disclosure is required by a specific standard of GRAP.
- Approved but not yet contracted commitments, where the expenditure has been approved and the contract has yet to be awarded or is awaiting finalisation at the reporting date.
- Items are classified as commitments where the municipality commits itself to future transactions that will normally result in the outflow of resources.
- Contracts that are entered into before the reporting date, but goods and services have not yet been received are disclosed in the disclosure notes to the financial statements.
- Other commitments for contracts that are non-cancelable or only cancelable at significant cost, contracts should relate to something other than the business of the municipality.

1.24 Investments

Where the carrying amount of an investment is greater than the estimated recoverable amount, it is written down immediately to its recoverable amount and an impairment loss is charged to the statement of financial performance.

Investment in securities

Investments in securities are recognised on a trade date basis and are initially measured at cost.

At subsequent reporting dates, debt securities that the municipality has the expressed intention and ability to hold to maturity (held-to-maturity debt securities) are measured at amortised cost, less any impairment losses recognised to reflect irrecoverable amounts. The annual amortisation of any discount or premium on the acquisition of a held-to-maturity security is aggregated with investment income over receivable over the term of the instrument so that the revenue recognised in each period represents a constant yield on the investment.

1.24 Investments (continued)

Investments other than held-to-maturity debt securities are classified as either held for trading or available-for-sale, and are measured at subsequent reporting dates at fair value, based on quoted market prices at the reporting date. Where securities are held for trading purposes, unrealised gains and losses are included in net surplus/(deficit) for the period. For available-for-sale investments, unrealised gains and losses are recognised directly in net assets, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in net assets is included in the surplus/(deficit) for the period.

Investments in derivative financial instruments

Derivative financial instruments are initially recorded at cost and are subsequently measured at fair value.

Changes in the fair value of derivative financial instruments that are designated and effective as cash flow hedges are recognised directly in accumulated surpluses/(deficits). Amounts deferred in net assets are recognised in the statement of financial performance in the same period in which the hedged firm commitment or forecasted transaction affects the surplus/(deficit).

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in the statement of financial performance as they arise.

1.25 Conditional grants and receipts

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised.

Government grants can be in the form of grants to acquire or construct fixed assets (capital grants), grants for the furtherance of national and provincial government policy objectives and general grants to subsidise the cost incurred by entities in rendering services. Capital grants and general grants for the furtherance of government policy objectives are usually restricted revenue in that stipulations are imposed on their use.

Government grants are recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the amount of the revenue can be measured reliably, and;
- to the extent that there has been compliance with any restrictions associated with the grant.

The municipality needs to asses the degree of certainty attached to the flow of future economic benefits of service potential on the basis of the available evidence. Certain grants payable by one level of government to another are subject to the availability of funds. Revenue from these grants should only be recognised when it is probable that the economic benefits or service potential associated with the transaction will flow to the entity. An announcement at the beginning of the financial year that grants may be available for qualifying entities in accordance with an agreed programme may not be sufficient evidence of the probability of the flow of economic benefits. Revenue should only be recognised once evidence of the probability of the flow of economic benefits becomes available.

Restrictions on government grants may result in such revenue being recognised on a time proportion basis. For example, equitable share grants per the Division of Revenue Act where the period of use of such funds are stated, should be recognised on a time proportion basis, i.e. over the stated period. Where there is no restriction on the period, such revenue should be recognised on receipt or when the Act becomes effective, whichever is earlier.

In certain circumstances government will only remit grants on a re-imbursement basis. Revenue should therefore be recognised when the qualifying expense has been incurred and to the extent that any other restrictions have been complied with and not when the grant is received.

1.25 Conditional grants and receipts (continued)

Other grants and donations

Donations shall be measured at the fair value of the consideration received or receivable when the amount of the revenue can be measured reliably.

Other grants and donations shall be recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the amount of revenue can be measured reliably, and;
- to the extent that there has been compliance with any restrictions associated with the grant.

2. New standards and interpretations

2.1 Standards and interpretations effective and adopted in the current year

In the current year, the municipality has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• GRAP 21 (as amended 2016): Impairment of non-cash-generating assets	01 April 2018	The impact of the is not material.
• GRAP 26 (as amended 2016): Impairment of cash-generating assets	01 April 2018	The impact of the is not material.

2.2 Standards and Interpretations early adopted

The municipality has chosen to early adopt the following standards and interpretations:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• GRAP 109: Accounting by Principals and Agents	01 April 2019	The adoption of this has not had a material impact on the results of the company, but has resulted in more disclosure than would have previously been provided in the financial statements

2.3 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality’s accounting periods beginning on or after 01 July 2019 or later periods:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• GRAP 18: Segment reporting	01 April 2020	Unlikely there will be a material impact
• GRAP 20: Related party disclosure	01 April 2019	Unlikely there will be a material impact
• GRAP 32: Service concession arrangements grantor	01 April 2019	Unlikely there will be a material impact
• GRAP 108: Statutory receivables	01 April 2020	Unlikely there will be a material impact
• iGRAP 1: Applying the probability est on initial recognition	01 April 2020	Unlikely there will be a material impact
• iGRAP 17: Service concession arrangements	01 April 2020	Unlikely there will be a material impact
• iGRAP 18: Recognition and derecognition of land	01 April 2019	Unlikely there will be a material impact
• iGRAP 19: Liabilities to pay levies	01 April 2019	Unlikely there will be a material impact
• iGRAP 20: Accounting for adjustments to revenue	01 April 2020	Unlikely there will be a material impact
• GRAP 34: Separate Financial Statements	01 July 2020	Unlikely there will be a material impact
• GRAP 35: Consolidated Financial Statements	01 July 2020	Unlikely there will be a material impact

2. New standards and interpretations (continued)

• GRAP 36: Investments in Associates and Joint Ventures	01 July 2020	Unlikely there will be a material impact
• GRAP 37: Joint Arrangements	01 July 2020	Unlikely there will be a material impact
• GRAP 38: Disclosure of Interests in Other Entities	01 July 2020	Unlikely there will be a material impact
• GRAP 110: Living and Non-living Resources	01 July 2020	Unlikely there will be a material impact

3. Inventories

Water	10 953	7 026

Inventory expensed in the current year have been disclosed in Bulk purchases 33

No inventory was written-off during the year. No inventory was pledged as collateral.

4. Other receivables from exchange transactions

Prepayments	1 516 512	871 707
Eskom receivable	17 086	17 086
Centlec receivables	2 275 670	4 508 494
Housing allowance receivable	631 640	631 640
Housing allowance impaired	(631 640)	(631 640)
Travel card	805 154	79 433
	4 614 422	**5 476 720**

Ageing of balance not impaired

Current		
(0 -30 days)	3 725 628	5 459 634
Past due	-	-
31 - 60 days (1 month past due)	-	-
61 - 90 days (2 months past due)	-	-
91 - 120 days (3 months past due)	-	-
121 - 150 days	-	-
> 150 days	888 793	17 086
	4 614 421	**5 476 720**

Analysis of balance not impaired

Analysis of balance not impaired		
Centlec receivable	2 275 670	4 508 494
Eskom receivable	17 086	17 086
Insurance receivable	-	-
Prepayments	1 516 512	871 707
Travel card	805 154	79 433
Housing Allowance Debtor	-	-
	4 614 422	**5 476 720**

No other receivables from exchange transactions were pledged as collateral.

Notes to the Financial Statements

Figures in Rand	2019	2018

5. Other receivables from non-exchange transactions

Fines	2 317 086	1 977 136
Fines Impairment	(1 940 589)	(1 902 079)
Deposits	342 684	287 684
Sundry receivables	416 147	416 292
	1 135 328	**779 033**

Ageing of balance not impaired

Current		
(0 -30 days)	10 566	590 484
Past due	-	-
31 - 60 days (1 month past due)	9 768	-
61 - 90 days (2 months past due)	2 570	-
91 - 120 days (3 months past due)	2 793	-
121 - 150 days	1 676	-
> 150 days	1 107 954	188 549
	1 135 327	**779 033**

Analysis of balance not impaired

Fines	376 496	75 057
Deposits	342 684	287 684
Sundry receivables	416 147	416 292
undry debtors	-	-
	-	-
	1 135 327	**779 033**

No other receivables from non-exchange transactions were pledged as collateral.

6. VAT receivable

VAT	28 416 684	28 275 232

7. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	1 564	1 564
Bank balances	-	2 278 199
Short-term deposits	319 531	1 250 871
Other cash and cash equivalents	592	-
Bank overdraft	(197 225)	-
	124 462	**3 530 634**
Current assets	321 687	3 530 634
Current liabilities	(197 225)	-
	124 462	**3 530 634**

Mantsopa Municipality has the following facilities with ABSA bank:
A guarantee of R 10 000 which has not been utilised
A fleet card facility of R 400 000, at year end R 51 454 (2018: R 180 000) of this facility was being utilised
A credit card used for travel facility of R 100 000, at year end this facility was not being utilised. (2018: R 80 000).
A overdraft facility of R 4 000 000 (2018: R 0), which may only be utilised on the approval of council.

7. Cash and cash equivalents (continued)

The municipality had the following bank accounts

Account number / description	Bank statement balances 30 June 2019	30 June 2018	30 June 2017	Cash book balances 30 June 2019	30 June 2018	30 June 2017
ABSA cheque 2020000050	(196 885)	2 277 035	(119 958)	(197 225)	2 277 035	(119 958)
FNB cheque 62402356530	96	8 990	1 045 358	96	8 990	1 045 358
ABSA investment 9264892325	7 602	50 218	4 550	52 493	50 218	4 550
ABSA investment 9230571400	32 231	30 319	28 490	31 897	30 319	28 490
ABSA investment 9278783703	30 236	398 085	2 197	29 960	398 085	2 197
ABSA investment 9264892561	15 613	585 101	55 797	15 613	585 101	55 797
ABSA investment 9277963448	12 327	54 939	52 317	57 190	54 939	52 317
Standard Bank investment 24895860001	111	111	111	111	111	111
Nedbank investment 094831059996	130 654	123 108	115 428	130 654	123 108	115 428
ABSA call account	592	-	-	592	-	-
Total	**32 577**	**3 527 906**	**1 184 290**	**121 381**	**3 527 906**	**1 184 290**

8. Investment property

	2019 Cost / Valuation	Accumulated Impairment	Carrying value	2018 Cost / Valuation	Accumulated Impairment	Carrying value
Investment property	201 562 480	-	201 562 480	201 562 480	-	201 562 480

Reconciliation of investment property - 2019

	Opening balance	Total
Investment property	201 562 480	201 562 480

Reconciliation of investment property - 2018

	Opening balance	Fair value adjustments	Total
Investment property	193 622 029	7 940 451	201 562 480

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

Details of valuation

The valuations of the above properties were obtained from the valuation roll implemented on 1 July 2018. The valuation roll was compiled by Manna Holdings (Pty)Ltd, a company that specialises in a number of valuation fields
The methodology from Manna Holdings makes reference to the following valuation techniques that were used during the valuation of Mantsopa Properties.

The Income Capitalisation Method: This method determines the net normalised annual income of the property, assuming the property is fully let at market related rentals, and market escalations, with an allowance made for vacancies.

Cost Approach Method: In this approach, a valuer would obtain a preliminary indication of the value of the property by estimating the value of the land and adding thereto the estimated production costs of the building and other improvements less depreciation.

Notes to the Financial Statements

Figures in Rand	2019	2018

8. Investment property (continued)

The Direct Comparable Sales Method: The concept behind the comparison approach is one of substitution: a reasonable buyer will pay no more than the value of a comparable good and a reasonable seller will sell for no less than the value of a comparable good.

Included in the Investment property above, is land which Mantsopa Local Municipality holds the legal title to the value of R 44 525 000 (2018: R 44 525 000). These included amongst others, shops and churches held by the public, and clinics and schools which form part of other governmental bodies.

No investment property was pledged as collateral.

Expenditure incurred to maintain investment property:

Investment property	32 375	61 358

9. Property, plant and equipment

	2019			2018		
	Cost / Valuation	**Accumulated depreciation and impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and impairment**	**Carrying value**
Land	37 184 892	-	37 184 892	37 184 892	-	37 184 892
Leased assets	3 244 978	(2 761 418)	483 560	3 244 978	(1 678 527)	1 566 451
Infrastructure	1 185 345 518	(490 574 659)	694 770 859	1 149 513 189	(440 427 820)	709 085 369
Community	154 055 357	(42 661 851)	111 393 506	146 735 331	(40 091 026)	106 644 305
Other property, plant and equipment	27 656 857	(18 471 292)	9 185 565	27 724 085	(16 659 215)	11 064 870
Water and electricity meters	8 866 281	-	8 866 281	241 917	-	241 917
Total	**1 416 353 883**	**(554 469 220)**	**861 884 663**	**1 364 644 392**	**(498 856 588)**	**865 787 804**

Reconciliation of property, plant and equipment - 2019

	Opening balance	**Additions constructed**	**Additions purchased**	**Disposals**	**Transfers**	**Depreciation**	**Impairment loss**	**Total**
Land	37 184 892	-	-	-	-	-	-	37 184 892
Leased assets	1 566 451	-	-	-	-	(1 082 891)	-	483 560
Infrastructure	709 085 369	47 529 124	263 798	(24 128)	(13 299 797)	(47 849 404)	(934 103)	694 770 859
Community	106 644 305	9 607 568	-	(1 446 008)	-	(3 412 359)	-	111 393 506
Other property, plant and equipment	11 064 870	-	535 152	(150 693)	-	(2 211 938)	(51 826)	9 185 565
Water and electricity meters	241 917	-	8 624 364	-	-	-	-	8 866 281
	865 787 804	**57 136 692**	**9 423 314**	**(1 620 829)**	**(13 299 797)**	**(54 556 592)**	**(985 929)**	**861 884 663**

9. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2018

	Opening balance	Additions constructed	Additions purchased	Disposals	Depreciation	Impairment loss	Total
Land	37 184 892	-	-	-	-	-	37 184 892
Leased assets	2 336 042	-	241 495	-	(1 011 086)	-	1 566 451
Infrastructure	722 253 075	33 675 837	334 668	(15 931)	(47 160 735)	(1 545)	709 085 369
Community	105 439 000	4 498 291	-	(23 576)	(3 269 410)	-	106 644 305
Other property, plant and equipment	9 461 735	3 732 316	-	-	(2 129 181)	-	11 064 870
Water and electricity meters	-	-	241 917	-	-	-	241 917
	876 674 744	**41 906 444**	**818 080**	**(39 507)**	**(53 570 412)**	**(1 545)**	**865 787 804**

Reconciliation of Work-in-Progress 2019

	Included within Infrastructure	Included within Community	Included as Meters	Total
Opening balance	16 073 578	2 929 453	241 917	19 244 948
Additions/capital expenditure	47 529 124	9 607 568	8 624 364	65 761 056
Transferred to completed items	(28 647 972)	(3 558 447)	-	(32 206 419)
	34 954 730	**8 978 574**	**8 866 281**	**52 799 585**

Reconciliation of Work-in-Progress 2018

	Included within Infrastructure	Included within Community	Included as Meters	Total
Opening balance	21 874 130	6 247 290	-	28 121 420
Additions/capital expenditure	33 679 882	4 498 291	241 917	38 420 090
Transferred to completed items	(39 480 434)	(7 816 129)	-	(47 296 563)
	16 073 578	**2 929 452**	**241 917**	**19 244 947**

Notes to the Financial Statements

Figures in Rand	2019	2018

9. Property, plant and equipment (continued)

Expenditure incurred to repairs and maintaince property, plant and equipment

Land and buildings	140 112	306 008
Infrastructure	1 513 137	4 899 193
Furniture and office equipment	5 507	-
Transport assets	1 194 728	1 470 392
Water network - survey and repair per WSIG grant	1 531 629	-
	4 385 113	**6 675 593**

Expenditure incurred for internal costs towards repairs and maintaince under wages for property, plant and equipment

Electricty	1 540 741	1 556 182
Roads and Storm Water	2 109 360	1 289 212
Sewer Network	2 610 478	2 311 766
Water Network	2 029 670	1 766 320
	8 290 249	**6 923 480**

Projects taking signicantly longer to complete

Erection of 730m of Concrete Palisade Fence and Graveyard with contract amount R632 568
and carrying value of R453 540 - The project was started late due to financial constraints experienced by the contractor but is now on track.

Tweespruit: Construction of three (03) 40 Square Meter with contract amount R 618 456.
Not started due to labour contraints.

Construction of Multi-Purpose Sport Facility with contract amount R9 994 784 and carrying value of R8 404 962 - due to a late appointment.

The aforementioned projects represent the slow-moving projects which are included in work-in-progress balance. These projects are slow-moving due to the fact that the contractors asked for extention and these projects were therefore placed on hold.

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

No Property, plant and equipment was pledged as collatoral.

10. Investments

Designated at fair value		
Listed shares	111 541	211 272
Old Mutual shares 5 249 (2018: 5 249) shares at R 21.25 (2018: R 40.25) per share		
Unlisted shares	1 003 654	950 678
OVK Holdings shares 34 566 (2018:34 566) shares at R 13.60 (2018: R12.90) per share		
OVK Operations shares 33 209 (2018:33 209) shares at R 15.65 (2018: R15.20) per share		
	1 115 195	**1 161 950**

Figures in Rand	2019	2018

10. Investments (continued)

Non-current assets		
Designated at fair value	1 115 195	1 161 950

Financial assets at fair value

Fair values of financial assets measured or disclosed at fair value

Old Mutual shares	211 272	211 272
These shares are valued as per valuation on the qouted price in the active market at 30 June 2019.		
OVK shares	950 678	950 678
These shares are valued as per valuation obtained from the OVK Transfer Secretaries as at 30 June 2019.		
	1 161 950	**1 161 950**

Fair value hierarchy of financial assets at fair value

For financial assets recognised at fair value, disclosure is required of a fair value hierarchy which reflects the significance of the inputs used to make the measurements. The fair value hierarchy have the following levels:

Level 1 represents those assets which are measured using unadjusted quoted prices in active markets for identical assets.

Level 2 applies inputs other than quoted prices that are observable for the assets either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3 applies inputs which are not based on observable market data.

Level 1		
Listed shares	1 161 950	1 161 950

No financial assets were pledged as security

11. Employee benefit obligations

Defined benefit plan

Post retirement medical aid plan

The Post Retirement Medical Plan is a defined benefit plan, of which the members are made up as follows:

Total members		
In-service (employee) members	50	58
Continuation members (eg. retirees, widows, orphans)	12	13
	62	**71**

The municipality's current active employees and pensioners have the choice of participating in the following medical schemes:

- LA Health Medical Scheme
- Bonitas Medical Scheme
- Hosmed Medical Scheme
- Samwumed Medical Scheme
- KeyHealth Medical Scheme

Figures in Rand	2019	2018

11. Employee benefit obligations (continued)

The amounts recognised in the statement of financial position are as follows:

Carrying value	**2019**	**2018**	**2017**	**2016**	**2015**
Present value of the defined benefit obligation -wholly unfunded	(22 828 312)	(25 539 000)	(25 906 000)	(25 172 000)	(39 823 000)
Benefits paid	425 688	448 316	498 000	528 000	378 000

Net expense recognised in the statement of financial performance

Current service cost	(831 000)	(2 746 000)	(2 527 000)	(3 488 000)	(4 673 000)
Interest cost	(2 577 000)	(949 000)	(898 000)	(4 073 000)	(3 579 000)
Actuarial (gains) losses	5 693 000	3 613 684	2 193 000	21 684 000	3 477 000

Key assumptions used

Assumptions used at the reporting date:

	2019	2018
Actual return on plan assets	6,70 %	7,00 %
Discount rates used	10,30 %	10,20 %
Medical cost trend rates	8,70 %	9,00 %
Expected increase in salaries	8,00 %	7,40 %

Discount rate
GRAP 25 requires that the discount rate used in the valuation be determined by reference to market yields on government bonds as at the statement of financial position date. Therefore the discount rate and inflation assumptions were based on the yields taken from the government zero coupon bond yield curves.

The currency and term of the government bonds shall be consistent with the currency and estimated term of the postemployment benefit obligations.

The estimated discount rate was set equal to the nominal yield on the South African government zero-coupon bond yield curve with a term of 19 years, the expected duration of the liability based on the current membership data, at 30 June 2019.

Health care cost inflation
The long-term inflation rate implied from the government bond yields is measured as the real difference between
- the nominal yield of the South African government zero coupon bond yield curve (8.4% per annum) at a term of 7years, and
- the real yield of the South African government zero coupon bond yield curve (3,1% per annum) at the same duration.
Our best estimate of inflation as at 30 June 2019 is therefore assumed to be 5.1% p.a.(2018: 6.7%)

Salary increases
The general trend is for salaries to increase faster than the increase in inflation. We used a salary escalation of 7.1% per annum, which includes real growth of approximately 1% per annum (inflation rate of 5.1% has been assumed) and further 1% allowance for merit increases. In the calculation, salary increases are assumed to be on 1 July annually.

11. Employee benefit obligations (continued)

Defined contribution plan

It is the policy of the municipality to provide retirement benefits to all its employees [or specify number of employees covered]. A number of defined contribution provident funds, all of which are subject to the Pensions Fund Act exist for this purpose.

Included in defined contribution plan information above, is the following plans which are a Multi-Employer Funds and are a Defined Benefit Plans, but due to the fact that sufficient information is not available to enable the municipality to account for the plans as defined benefit plans. The municipality accounted for these plans as a defined contribution plans:

South African Local Authorities Provident Fund
National Fund for Municipal Workers
Municipal Employees Pension Fund
South African Municipal Workers Union Provident Fund
Municipal Councillors Pension Fund

Defined benefit plans

The following are defined benefit plans:

Free State Municipal Pension Fund
South African Local Authorities Pension Fund

These are not treated as a defined benefit plan as defined by IAS 19, but as a defined contribution plan. These funds are multi-employer plans and actuarial valuations done by actuaries could not be provided due to the lack of information. According to the actuaries, it is not possible to report each municipality separately, thus it has been classified as a contribution plan. This is in line with the exemption in IAS 19, paragraph 30, which states that where information required for a defined benefit plan is not available in respect of multi-employer and state plans, these should be accounted for as defined contribution plans.

Some employees belong to the SALA Pension Fund. The latest actuarial valuation of the funds was on 1 July 2010. These valuations indicate that the funds are in a sound financial position. The estimated liabilities of the fund is R7 418 million (2009: R6 568 million) which is adequately financed by assets of R7 110 million (2009: R6 304 million). The actuarial valuations states that the fund is currently 96% funded by employer contributions. If the current employer contribution rate is maintained the fund is expected to be close to 100% funded at the next statutory valuation.

A few employees belong to the Free State Municipal Pension Fund. The latest actuarial valuation of the fund was on 30 June 2005. These valuations indicate that the fund is in a sound financial position. The estimated liabilities of the fund is R1 308 million which is adequately financed by assets of R1 531 million.

12. Loans receivable

	2019	2018
Oranje Vrystaat Kooperasie	375 849	375 849
Buiteklub	178 159	184 357
	554 008	**560 206**

	2019	2018
Current	6 256	6 198
Non-current	547 752	554 008
	554 008	**560 206**

Loans were not pledged as collatoral.

Notes to the Financial Statements

Figures in Rand	2019	2018

13. Trade receivables from exchange and non-exchange transactions

Gross balances		
Electricity	36 422 635	24 070 662
Water	164 844 187	116 191 213
Sewerage	125 027 332	100 183 469
Refuse	88 819 822	71 473 943
Rental	10 853 799	3 251 976
Other	40 201	6 820 697
	426 007 976	**321 991 960**
Less: Allowance for impairment		
Electricity	(14 806 002)	(12 430 401)
Water	(137 001 285)	(95 677 017)
Sewerage	(110 740 082)	(88 394 415)
Refuse	(77 210 619)	(62 822 913)
Rental	(7 789 330)	-
Other	(31 262)	(6 780 738)
	(347 578 580)	**(266 105 484)**
Net balance		
Electricity	21 616 633	11 640 261
Water	27 842 902	20 514 196
Sewerage	14 287 250	11 789 054
Refuse	11 609 203	8 651 030
Rental	3 064 469	3 251 976
Other	8 939	39 959
	78 429 396	**55 886 476**

Analysis of balance not impaired by service type

Electricity		
Current (0 -30 days)	2 427 677	3 548 418
31 - 60 days	2 495 320	1 275 298
61 - 90 days	1 689 473	350 821
91 - 120 days	3 263 584	612 899
121 - 150 days	1 158 262	446 180
> 150 days	10 582 317	5 406 645
	21 616 633	**11 640 261**
Water		
Current (0 -30 days)	3 896 029	2 681 356
31 - 60 days	2 065 975	1 260 460
61 - 90 days	1 275 188	929 494
91 - 120 days	1 293 921	670 951
121 - 150 days	929 476	658 181
> 150 days	18 382 313	14 313 754
	27 842 902	**20 514 196**

Figures in Rand	2019	2018

13. Trade receivables from exchange and non-exchange transactions (continued)

Sewerage		
Current (0 -30 days)	882 756	865 569
31 - 60 days	556 435	524 993
61 - 90 days	492 918	184 662
91 - 120 days	454 938	350 351
121 - 150 days	406 062	237 913
> 150 days	11 494 141	9 625 566
	14 287 250	**11 789 054**

Refuse		
Current (0 -30 days)	687 371	661 574
31 - 60 days	437 284	387 061
61 - 90 days	385 997	301 518
91 - 120 days	355 802	265 950
121 - 150 days	325 972	182 895
> 150 days	9 416 777	6 852 032
	11 609 203	**8 651 030**

Rental		
Current (0 -30 days)	675 188	84 509
31 - 60 days	48 625	53 241
61 - 90 days	39 816	661 484
91 - 120 days	26 906	36 236
121 - 150 days	29 716	26 303
> 150 days	2 244 218	2 390 203
	3 064 469	**3 251 976**

Other		
Current (0 -30 days)	677	668
31 - 60 days	9	-
61 - 90 days	9	-
91 - 120 days	9	-
121 - 150 days	9	-
> 150 days	8 226	39 291
	8 939	**39 959**

Figures in Rand	2019	2018

13. Trade receivables from exchange and non-exchange transactions (continued)

Analysis of balance not impaired by customer classificationcation

Household/residential		
Current (0 -30 days)	4 878 215	4 780 321
31 - 60 days	3 183 997	2 490 325
61 - 90 days	2 394 339	1 767 945
91 - 120 days	4 329 064	1 739 994
121 - 150 days	1 786 117	1 390 623
> 150 days	39 145 911	33 985 542
	55 717 643	**46 154 750**

Industrial/ commercial		
Current (0 -30 days)	2 342 686	1 331 885
31 - 60 days	1 036 008	392 779
61 - 90 days	924 099	367 410
91 - 120 days	663 747	96 770
121 - 150 days	551 376	66 830
> 150 days	7 185 955	2 273 810
	12 703 871	**4 529 484**

National and provincial government		
Current (0 -30 days)	1 348 744	1 729 887
31 - 60 days	1 383 640	617 950
61 - 90 days	564 959	292 624
91 - 120 days	402 350	330 782
121 - 150 days	512 005	94 018
> 150 days	5 795 627	2 136 983
	10 007 325	**5 202 244**

Reconciliation of allowance for impairment		
Balance at beginning of the year	(266 105 484)	(147 067 775)
Contributions to allowance	(81 544 695)	(119 037 709)
Debt impairment written off against allowance	71 599	-
	(347 578 580)	**(266 105 484)**

14. Finance lease obligation

Minimum lease payments due		
- within one year	446 138	1 559 849
- in second to fifth year inclusive	1 153 907	1 142 143
	1 600 045	2 701 992
less: future finance charges	(607 282)	(1 044 860)
Present value of minimum lease payments	**992 763**	**1 657 132**

Present value of minimum lease payments due		
- within one year	415 094	1 049 448
- in second to fifth year inclusive	576 669	607 686
	991 763	**1 657 134**

Non-current liabilities	446 138	612 379
Current liabilities	612 379	1 049 448
	1 058 517	**1 661 827**

14. Finance lease obligation (continued)

It is the municipality policy to lease certain property under finance leases.
The municipality currently has leases for telephones and photocopiers which have been recognised as leased assets.
The average lease term was 3 years based on the rate implicit in the lease.

Details of the lease contracts:	**Inception**	**Expires**	**Within year**	**Escalation**
Telephones	1 Jun 2008	30 Mar 2021	63 576	18% pa
Photocopiers	1 Nov 2016	31 Oct 2019	382 562	6,75% pa
			-	
			-	

15. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
Department water affairs	-	73 909
Teta	-	272 100
	-	**346 009**

The nature and extent of government grants recognised in the financial statements and an indication of other forms of government assistance from which the municipality has directly benefited; and

Unfulfilled conditions and other contingencies attaching to government assistance that has been recognised.

See note for reconciliation of grants from National/Provincial Government.

16. Loans

At amortised cost		
Development Bank of South Africa	6 780 226	6 316 406
Non-current liabilities		
At amortised cost	1 839 747	4 807 002
Current liabilities		
At amortised cost	4 940 479	1 509 404

Mantsopa Local Municipality entered into a loan agreement with DBSA on 26 May 2010 in terms of which DBSA borrowed a total capital amount of R 5 180 000 to Mantsopa Local Municipality. The loan period is over 10 years at a interest rate of 6.75% of which payments are due semi-annually.

17. Provisions

Reconciliation of provisions - 2019

	Opening Balance	**Disposals**	**Finance Cost**	**Total**
Environmental rehabilitation	20 584 436	-	2 370 682	22 955 118
Long service awards	4 129 000	(109 003)	372 000	4 391 997
	24 713 436	**(109 003)**	**2 742 682**	**27 347 115**

17. Provisions (continued)

Reconciliation of provisions - 2018

	Opening Balance	Additions	Finance cost	Total
Environmental rehabilitation	18 633 719	-	1 950 717	20 584 436
Long service awards	3 441 000	395 000	293 000	4 129 000
	22 074 719	**395 000**	**2 243 717**	**24 713 436**

Figures in Rand	2019	2018

17. Provisions (continued)

Environmental rehabilitation provision

The provision for rehabilitation of landfill sites relates to the legal obligation, in terms of the Mineral and Petroleum Resources Development Act, 2002 (Act No. 28 of 2002), whereby the municipality is required to execute the environmental management program to restore the landfill sites at Excelsior, Ladybrand, Tweespruit and Hobhouse to comply with the permit requirements.

The provision was determined by an independent expert as at 30 June 2019 and approximates the discounted expected future cash flows using reasonable estimation techniques. The discount rate used for the landfill sites is based on a bond rate that matures as close as possible to the future date of the rehabilitation.

The final rehabilitation of the landfill sites are expected to be over a period of 19 years, being the estimated useful lives of landfill sites. No uncertainties were listed in the engineer's report. The certainty and the timing of the outflow of these liabilities are uncertain and the amounts disclosed are the possible outflow amounts.

The value of the provision is based on the expected future cost to rehabilitate the various sites. The cost of such property includes the initial estimate of the costs of rehabilitating the land and restoring the site on which it is located, the obligation for which a municipality incurs as a consequence of having used the property during a particular period for landfill purposes. The municipality estimates the useful lives and makes assumptions as to the useful lives of these, assets, which influence the provision for future costs.

Key assumptions used:

The following assumptions were used to calculate the provision:

Total area expected to be rehabilitated:	201 922 square metres
Average rate per square metre:	R97.55 (excl. VAT) escalating every year by 6.5%

The area to be rehabilitated can be reconciled to the different sites as follows:

Ladybrand	38 082
Tweespruit / Thaba Patchoa	50 020
Hobhouse	68 800
Excelsior	45 020

Each of the landfill sites has adequate footprint and airspace available for the disposal of solid waste until 2031 - 2033.

Ladybrand:
The site presently used at Ladybrand is an informal site which has not been designed and constructed as a proper landfill site. As indicated in paragraph 4 of this report, it is a condition of the Waste Management License issued on 15 March 1994 that a properly designed facility should be constructed as soon as possible as a matter of urgency.

Tweespruit / Thaba Patchoa:
As indicated in paragraph 4 of this report, it is a condition of the Waste Management License issued on 23 April 2015 that a properly designed facility should be constructed as soon as possible as a matter of urgency.

Hobhouse:
Hobhouse does not have a designed landfill site. Refuse is dumped in a disused dolerite quarry without any engineered cells. No proper landfill activities can take place at the site due to the absence of proper cells and the non-availability of material to cover compacted refuse. It is a condition of the Waste Management License issued on 10 April 2015 that a properly designed facility should be constructed as soon as possible as a matter of urgency.

Excelsior:
The site presently used at Excelsior is an informal site which has not been designed and constructed as a proper landfill site. As a condition of the Waste Management License issued on 22 March 1994 a properly designed facility should be constructed as soon as possible as a matter of urgency.

Figures in Rand	2019	2018

17. Provisions (continued)

Long service awards

A long-service award is granted to municipal employees after the completion of fixed periods of continuous service with the municipality. The provision represents an estimation of the awards to which employees in the service of the municipality may become entitled to in future. GRAP 25 valuation was done by management for the 2018 financial year and membership data used can be summarised as follow:

The amounts recognised in the statement of financial position are as follows:

As at 30 June	2019	2018	2017	2016	2015
Present value of long service awards liability - wholly unfunded	(4 129 000)	(3 441 000)	(2 972 000)	(3 130 000)	(3 213 000)
Service cost	(464 000)	(310 000)	(267 000)	(436 000)	(512 000)
Interest cost	(372 000)	(293 000)	(263 000)	(264 000)	(260 000)
Actuarial gains/(losses)	(31 237)	(467 000)	(219 000)	620 000	631 000
Benefit payments	604 237	382 000	280 000	238 000	224 000
	(4 392 000)	**(4 129 000)**	**(3 441 000)**	**(2 972 000)**	**(3 130 000)**

The certainty and the timing of the outflow of these liabilities are uncertain and the amounts disclosed are the possible outflow amounts.

Financial variables

The two most important financial variables used in our valuation are the discount rate and salary inflation. We have assumed the following values for these variables:

Financial variable	June 2019	June 2017
Discount rate	8.4%	9.00 %
CPI (Consumer price inflation)	5.1%	6.00%

Discount rate

GRAP 25 requires that the discount rate used in the valuation be determined by reference to market yields on government bonds (so called zero rates) at the reporting date, at 30 June 2019, at the appropriate term. Therefore the discount rate and inflation assumptions were based onthe government zero coupon bond yield curves. The currency and term of the government bonds is consistent with the currency and estimated term of the postemployment
benefit obligations.

The discounted term of the liabilities is approximately 7 years.

Salary inflation

Escalation in the general level of salaries as a result of inflation and real salary increases. The general trend is for salaries to increase faster than the increase in inflation. A salary escalation rate of 7.1% (2018: 8.00%) p.a, which includes real growth of approximately 1% p.a and a further 1% allowance for merit increases was used.

Demographic assumptions

The demographic assumptions for the year 30 June 2019 valuation are shown in the tables below, and compared to those used for the previous valuation.

30 June 2019

Pre-retirement mortality:	SA85-90 (light) rated down 1 year for males and females
Assumed retirement age:	63 years for males and females

Notes to the Financial Statements

Figures in Rand	2019	2018

17. Provisions (continued)

30 June 2018

Pre-retirement mortality:	SA85-90 (light) rated down 1 year for males and females
Assumed retirement age:	63 years for males and females

Withdrawal assumption
In the absence of credible past withdrawal data for this particular scheme, the withdrawal assumptions have been set in line with those generally observed in the South African market.The annual withdrawal rates for the valuation, differentiated by age:

Age	Males and Females
20	13.30%
25	13.30%
30	10.90%
35	8.20%
40	5.80%
45	4.10%
50	2.90%
55	0.00%
60+	0.00%

18. Payables from exchange transactions

	2019	2018
Trade payables	228 328 085	174 825 101
Trade receivables credit balances	3 349 386	2 263 162
Salary control accounts	10 035 328	15 720 637
Leave accrual	12 328 278	13 758 720
Bonus accrual	2 232 911	1 765 754
Retentions	3 995 486	2 695 086
Unknown deposits	13 346 443	2 845 598
	273 615 917	**213 874 058**

19. Payables from non-exchange transactions

	2019	2018
Trade receivables credit balances	3 381 636	2 366 865
Legal claims	230 000	-
	3 611 636	**2 366 865**

20. Consumer deposits

	2019	2018
Services	2 343 188	1 612 206
Sundry	94 676	82 250
	2 437 864	**1 694 456**

Held as deposit on consumer accounts for services.

Figures in Rand	2019	2018

21. Revenue

Service charges	110 971 754	100 718 328
Interest received exchange	31 131 533	22 678 747
Other income	2 461 272	3 355 968
Interest earned	203 096	763 992
Dividends	-	34 839
Property rates	14 610 586	13 936 227
Interest received non-exchange	2 932 443	1 498 556
Government grants and subsidies	143 676 252	114 194 194
Public contributions and donations	-	2 324 715
Fines, Penalties and Forfeits	366 600	527 300
	306 353 536	**260 032 866**

The amount included in revenue arising from exchanges of goods or services are as follows:

Service charges	110 971 754	100 718 328
Interest received (trading)	31 131 533	22 678 747
Other income	2 461 272	3 355 968
Interest received	203 096	763 992
Dividends received	-	34 839
	144 767 655	**127 551 874**

The amount included in revenue arising from non-exchange transactions is as follows:

Taxation revenue		
Property rates	14 610 586	13 936 227
Interest received (rates)	2 932 443	1 498 556
Transfer revenue		
Government grants & subsidies	143 676 252	114 194 194
Public contributions and donations	-	2 324 715
Fines, Penalties and Forfeits	366 600	527 300
	161 585 881	**132 480 992**

The amount included in interest from exchange:

Electricity	1 853 720	1 887 721
Water	12 640 044	7 897 591
Sewerage	9 651 999	8 107 995
Refuse	6 377 457	4 207 390
Rental	607 774	577 484
Other	539	564
	31 131 533	**22 678 745**

The amount included in interest from non-exchange:

22. Service charges and interest

Sale of electricity	37 311 278	40 367 657
Sale of water	46 691 591	36 866 939
Sewerage and sanitation charges	19 196 157	22 148 618
Refuse removal	13 375 725	16 076 382
Service subsidies	(5 602 997)	(14 741 268)
	110 971 754	**100 718 328**

23. Traffic fines

Traffic Fines	366 600	527 300

Figures in Rand	2019	2018

24. Other income

Advertisements	204 179	207 797
Building plans	62 850	100 670
Commission received	14 014	80 035
Connections	171 400	369 062
Discount received	-	(2 676)
Dog licenses	293	290
Garden refuse	14 675	13 452
Grave sales	164 656	157 816
Insurance recoveries	30 913	1 912
Penalties	-	29 803
Photo copies	11 353	8 717
Private telephone cost recovery	14 750	23 580
Private work	-	2 451
Rental of properties, facilities and equipment	1 401 261	2 054 488
Sale of land	35 567	25 597
Subdivisioning	3 385	10 472
Tender documents	127 806	196 623
Testmeters	-	1 700
Training cost recovered	113 413	-
Valuation lists	89 137	73 683
Valuation roll	1 620	496
	2 461 272	**3 355 968**

Rental of properties, facilities and equipment

The municipality holds the following contracts with future lease payments.

Minimum lease payments due		
- within one year	114 218	114 218
- in second to fifth year inclusive	454 572	455 722
- later than five years	191 600	304 667
Present value of minimum lease payments	**760 390**	**874 607**

Details of the lease contracts:	**Inception**	**Expires**	**Within year**	**Escalation**
Land - monthly	1 Jul 2018	31 Mar 2026	2 400	None
Farm - monthly	1 Jan 2019	31 Dec 2028	33 628	10% pa
Farm - annual	1 May 2001	30 Sep 2024	25 920	None
Farm - montly	1 May 2001	30 Sep 2024	51 120	None
Land - monthly	1 Jul 2016	30 Mar 2022	1 150	None

25. Investment revenue

Dividend revenue		
Listed financial assets	-	34 839
Interest revenue		
Bank	203 096	763 992
	203 096	**798 831**

Figures in Rand	2019	2018

26. Property rates

Rates received

Residential	1 738 497	5 459 187
Commercial	6 180 485	2 883 082
State	3 037 671	2 342 547
Small holdings and farms	3 653 933	3 251 411
	14 610 586	13 936 227
Interest earned on outstanding trade receivable accounts	2 932 443	1 498 556
	17 543 029	**15 434 783**

The latest valuation roll was obtained effective 30 June 2018 and rates in the current year was calculated on these property values. A supplementary received effective 30 June 2019 and will be implemented in the new financial year.
Prior year rates were reclassified to be in line with current year.

27. Government grants and subsidies

Operating grants		
Equitable share	74 810 508	68 271 620
Grant received Annual Financial Statement Preparation	4 170 843	1 000 000
Teta grant	1 088 400	-
Expanded Public Works Programme (EPWP) Grant	1 132 500	1 000 000
Financial Management Grant (FMG)	2 215 000	2 145 000
	83 417 251	**72 416 620**
Capital grants		
Municipal Infrastructure Grant (MIG)	32 759 001	20 252 000
Grand in-kind: Various Roads	-	7 017 544
Department of Water Affairs Grant	27 500 000	14 508 030
	60 259 001	**41 777 574**
	143 676 252	**114 194 194**

Equitable share

Current-year receipts	74 663 091	68 314 000
Transferred to revenue	(74 737 000)	(68 314 000)
Prior year Department of Water unspent grant deducted	73 909	-
	-	**-**

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members. All registered indigents receive a monthly subsidy, which is funded from the grant.

Expanded Public Works Programme (EPWP) Grant

Current-year receipts	1 130 000	1 000 000
Conditions met - transferred to revenue	(1 130 000)	(1 000 000)
	-	**-**

The grant was used in respect of job creation projects and programmes.

Figures in Rand	2019	2018

27. Government grants and subsidies (continued)

Financial Management Grant (FMG)

Current-year receipts	2 215 000	2 145 000
Conditions met - transferred to revenue	(2 215 000)	(2 145 000)
	-	-

The purpose of the grant is to promote and support reforms to financial management and the implementation of the MFMA.

The funds were used to promote and support reforms to financial management practices, including the modernisation of budgeting, financial management, accounting, monitoring systems and implementation of the Municipal Management Act. The grant was also used for the salaries of the financial interns.

Department of Water Affairs Grant

Balance unspent at beginning of year	73 909	(418 061)
Current-year receipts	27 500 000	15 000 000
Conditions met - transferred to revenue	(27 500 000)	(14 508 030)
Prior year unspent grant deducted from equitable share	(73 909)	-
	-	**73 909**

The grant was allocated for the construction and upgrading of water networks within the municipal boundaries. All conditions attached the grant were met.

Grant in-kind: Provincial Treasury

Current-year receipts	1 000 000	1 000 000
Conditions met - transferred to revenue	(1 000 000)	(1 000 000)
	-	-

This grant was received from Provicial Treasury for preparation of the Annual Financial Statements

Grant in kind various roads

Current-year receipts	-	7 017 544
Conditions met - transferred to revenue	-	(7 017 544)
	-	-

During the 2017 year the following two projects relating to upgrading of roads were donated and subsequently completed as part of infrastructure assets:
1)Township Revitalisation Program: Upgrading of Streets in Excelsior.
2)Township Revitalisation Program: Upgrading of Streets in Tweespruit

The Municipality was not responsible for the payment of the project, it has been accounted for as a donated asset and grant in-kind received

Teta grant

Balance unspent at beginning of year	272 100	-
Current-year receipts	816 300	272 100
Conditions met - transferred to revenue	(1 088 400)	-
	-	**272 100**

Conditions still to be met - remain liabilities (see note 15).

Teta provided a driving grants.

Notes to the Financial Statements

Figures in Rand	2019	2018

28. Public contributions and donations

Donation of assets	-	2 324 715

Included in the above donations are the following:

Property, plant and equipment	-	1 414 517
Maintenance related tools	-	910 198
	-	**2 324 715**

29. Employee related costs

Basic remuneration	53 893 870	49 353 967
Bonus	3 953 548	3 363 915
Medical aid	7 695 157	6 650 799
UIF	578 539	528 309
WCA	671 976	588 220
SDL	766 929	689 276
Industrial council	34 213	28 742
Leave pay	(1 292 510)	4 030 171
Pension fund	8 586 592	6 853 365
Overtime	8 162 349	7 523 585
Long service awards	759 310	592 078
Car allowance	5 147 950	3 831 175
Housing allowance	1 151 083	874 650
Standby allowance	825 083	655 434
Post retirment medical aid	831 000	2 234 453
	91 765 089	**87 798 139**

Remuneration of municipal manager - TP Masejane

Annual Remuneration	929 211	752 142
Allowances	360 000	226 000
Contributions to UIF, Medical and Pension Funds	224 279	201 400
Other Contributions	105	90
	1 513 595	**1 179 632**

Remuneration of chief finance officer - SA Nyapholi

Annual Remuneration	637 184	148 617
Allowances	216 000	54 000
Contributions to UIF, Medical and Pension Funds	165 103	39 268
Other Contributions	105	25
	1 018 392	**241 910**

Remuneration of chief financial office - PI Yangaphi

Annual Remuneration	-	413 425
Allowances	-	60 721
Contributions to UIF, Medical and Pension Funds	-	22 324
Other Contributions	-	41
	-	**496 511**

PI Yangaphi acted as chief financial officer for the period November 2017 to March 2018

Notes to the Financial Statements

Figures in Rand	2019	2018

29. Employee related costs (continued)

Remuneration of chief financial officer - MA Makoae

Annual Remuneration	-	400 993
Allowances	-	58 550
Performance Bonuses	-	21 293
Contributions to UIF, Medical and Pension Funds	-	34 551
Other contributions	-	31
	-	**515 418**

MA Makoae acted as chief financial office for the period July 2017 to October 2017

Remuneration of chief financial officer - KD Matsie

Annual Remuneration	-	124 268
Performance Bonuses	-	17 925
Contributions to UIF, Medical and Pension Funds	-	24 304
	-	**166 497**

KD Matsie was chief financial officer up to June 2017

Remuneration of director: Corporate Services - NM Litabe

Annual Remuneration	436 969	108 772
Allowances	384 000	96 000
Contributions to UIF, Medical and Pension Funds	102 172	20 101
Other Contributions	105	25
	923 246	**224 898**

Remuneration of director: Corporate services - ED Nana

Annual Remuneration	-	276 566
Allowances	-	66 191
Contributions to UIF, Medical and Pension Funds	-	59 610
Other Contributions	-	41
	-	**402 408**

ED Nana acted in the position of director corporate services from November 2017 to March 2018.

Remuneration of director: Corporate services - PP Moloi

Annual Remuneration	-	643 097
Allowances	-	87 588
Contributions to UIF, Medical and Pension Funds	-	27 986
Other Contributions	-	40
	-	**758 711**

Remuneration director: Technical services - AB Masuku

Annual Remuneration	516 499	-
Allowances	180 000	-
Contributions to UIF, Medical and Pension Funds	94 822	-
Other Contributions	79	-
	791 400	**-**

Figures in Rand	2019	2018

29. Employee related costs (continued)

Remuneration director: Technical services - ED Nana

Annual Remuneration	186 704	524 071
Allowances	39 551	92 680
Contributions to UIF, Medical and Pension Funds	24 682	34 899
Other Contributions	26	56
	250 963	**651 706**

ED Nana acted as director technical services from July 2017 to October 2017 and again April 2018 to September 2018

Remuneration director: Technical services - MTS Moeti

Annual Remuneration	-	351 291
Allowances	-	73 368
Contributions to UIF, Medical and Pension Funds	-	38 800
Other Contributions	-	41
	-	**463 500**

MTS Moeti acted as director technical services from November 2017 to March 2018

Remuneration director: Community services - MM Lesoetsa

Annual Remuneration	465 745	-
Allowances	170 000	-
Contributions to UIF, Medical and Pension Funds	109 121	-
Other Contributions	88	-
	744 954	**-**

Figures in Rand	2019	2018

29. Employee related costs (continued)

Remuneration director: Community services - KG Matsekane

Annual Remuneration	-	590 586
Contributions to UIF, Medical and Pension Funds	-	27 076
Other contributions	-	57
	-	**617 719**

KG Matsekane acted as director community services from September 2017 to November 2017 and again from March 2018 to August 2018

Remuneration director: Community services - EM Makateng

Annual Remuneration	-	215 489
Allowances	-	52 583
Contributions to UIF, Medical and Pension Funds	-	38 226
Other contributions	-	33
	-	**306 331**

EM Makateng acted as director community services from December 2017 to February 2018

Remuneration director: Community services - KB Sebolai

Annual Remuneration	-	223 519
Allowances	-	14 357
Performance Bonuses	-	33 414
Contributions to UIF, Medical and Pension Funds	-	11 532
Other contributions	-	8
	-	**282 830**

30. Remuneration of councillors

Executive Major	867 593	887 661
Speaker	705 329	712 713
Councillors	5 115 577	5 320 733
	6 688 499	**6 921 107**

31. Finance costs

Non-current borrowings	463 820	412 501
Trade and other payables	20 428 733	15 750 446
Bank	(374 872)	213 716
Interest employee benefits	2 949 000	3 039 000
	23 466 681	**19 415 663**

32. Debt impairment

Rates	1 818 536	6 098 846
Electricity	2 175 855	1 064 954
Water	37 846 446	47 564 709
Sewerage	22 765 351	29 860 401
Refuse	14 019 398	18 802 846
Rental	1 468 204	827 025
	80 093 790	**104 218 781**

Figures in Rand	2019	2018

33. Bulk purchases

Electricity	39 669 567	38 837 196
Water and chemicals	4 756 824	2 754 964
	44 426 391	**41 592 160**

Chemicals of R3 001 782 (2018: R 1 688 925) relating to the treatment of water was reclassified from general expenses to bulk purchases.

34. Contracted services

Presented previously		
Operating Leases	2 785 181	1 065 352

35. General expenses

Advertising	483 977	635 318
Auditors remuneration	4 563 776	4 912 201
Bank charges	435 691	476 974
Cleaning	66 857	65 490
Consulting and professional fees	5 909 100	6 884 042
Donations	4 234 246	57 865
Entertainment	38 535	126 815
Hire	4 153 405	3 092 310
Insurance	724 703	182 485
Community development and training	696 839	661 011
Fuel and oil	2 633 362	2 332 784
Printing and stationery	313 040	384 647
Research and development costs	164 637	51 328
Security (Guarding of municipal property)	3 960	296 723
Staff welfare	135 277	45 540
Subscriptions and membership fees	919 840	1 755 254
Telephone and communication	1 245 144	3 902 769
Training	534 972	1 092 339
Travel - local	3 918 817	3 487 754
Title deed search fees	189 821	1 873 276
Sanitation, water and electricity expenses	1 911 805	1 704 900
Uniforms	732 848	349 355
Licenses	3 332 069	2 711 530
Environmental costs	2 370 682	1 950 717
Audit committee costs	232 156	156 457
Other expenses	652 466	152 663
	40 598 025	**39 342 547**

36. Fair value adjustments

Investment property (Fair value model)	-	7 940 450
Other financial assets		
• Old Mutual shares and OVK shares	(46 755)	151 550
	(46 755)	**8 092 000**

Figures in Rand	2019	2018

37. Cash generated from operations

	2019	2018
Deficit	(40 952 720)	(88 390 055)
Adjustments for:		
Depreciation and amortisation	54 556 592	53 612 922
Loss on disposal of assets and liabilities	1 620 830	36 809
Fair value adjustments	46 755	(8 092 000)
Finance costs	463 820	-
Impairment deficit	985 929	1 545
Movements in retirement benefit liabilities	(2 710 688)	(367 000)
Movements in provisions	2 633 679	2 638 717
Donation	-	(8 432 061)
Prior period adjustment	(4 424)	-
Changes in working capital:		
Inventories	(3 927)	(1 629)
Other receivables from exchange transactions	862 298	-
Trade receivables from exchange transactions	(22 542 920)	35 546 550
Other receivables from non-exchange transactions	(356 295)	(252 789)
Trade receivables from non-exchange transactions	(5 391 112)	(1 793 209)
Unspent grant	(346 009)	73 909
Payables from exchange transactions	66 997 703	41 306 091
VAT	(6 152 525)	9 012 517
Consumer deposits	743 408	99 406
	50 450 394	**34 999 723**

38. Financial instruments disclosure

Categories of financial instruments

2019

Financial assets

	At fair value	At amortised cost	Total
Receivables from exchange transactions	251 820 051	-	251 820 051
Receivables from non-exchange transactions	34 420 875	-	34 420 875
Other receivables from exchange transactions	-	1 809 268	1 809 268
Other receivables from exchange transactions	-	1 135 328	1 135 328
VAT receivables	-	9 592 229	9 592 229
Cash and cash equivalents	321 687	-	321 687
	286 562 613	**12 536 825**	**299 099 438**

Figures in Rand	2019	2018

38. Financial instruments disclosure (continued)

Financial liabilities

	At amortised cost	Total
Finance lease obligation	1 058 517	1 058 518
Payables from exchange transactions	279 869 843	279 869 843
Payables from non-exchange transactions	3 381 636	3 381 636
Unspent conditional grants and receipts	(2 000 000)	(2 000 000)
Loans	6 780 226	6 780 226
Bank overdraft	197 225	197 225
Consumer deposits	2 437 864	2 437 864
	291 725 311	**291 725 312**

2018

Financial assets

	At fair value	At amortised cost	Total
Receivables from exchange transactions	56 756 809	-	56 756 809
Receivables from non-exchange transactions	11 755 415	-	11 755 415
Other receivables from exchange transactions	-	5 397 287	5 397 287
Other receivables from exchange transactions	-	779 033	779 033
VAT receivables	6 606 923	6 606 923	13 213 846
Cash and cash equivalents	3 530 634	-	3 530 634
	78 649 781	**12 783 243**	**91 433 024**

Financial liabilities

	At amortised cost	Total
Finance lease obligation	1 661 827	1 661 828
Payables from exchange transactions	213 441 388	213 441 388
Payables from non-exchange transactions	2 366 865	2 366 865
Unspent conditional grants and receipts	73 909	73 909
Loans	6 316 406	6 316 406
	223 860 395	**223 860 396**

39. Commitments

Authorised capital expenditure

Already contracted for but not provided for		
• Infrastructure	27 688 281	37 850 609
• Community Services	618 456	-
	28 306 737	**37 850 609**

Total capital commitments		
Already contracted for but not provided for	28 306 737	37 850 609

This committed expenditure relates to property and will be financed by available bank facilities, retained surpluses, rights issue of shares, issue of debentures, mortgage facilities, existing cash resources, funds internally generated, etc.

Notes to the Financial Statements

Figures in Rand	2019	2018

40. Contingencies

The following contingent liabilities were identified:

	2019	2018
Zanoxolo & Nandipha Jacobs: Damaged caused by veld fires	2 950 553	2 850 553
Twin Peak Tech: Settled in favour of municipality	-	1 846 241
SALA Provident Fund	-	10 000
Seabata Monyane: Settled in favour of Seabata	-	180 000
	2 950 553	**4 886 794**

41. Related parties

Key management information

Class	**Description**
Mayor	ME Tsoene
Speaker	MJ Moduka
Chief whip	YJ Jacobs
Councillors	MP Nakalebe
	SJ Moses
	RT Mpakathe
	NJ Thaisi
	DT Molefe
	KI Tigeli
	SQ Gaba
	LP Moletsane
	GM Seoe
	T Halse
	BM Sani
	BE Meya
	DJ Hattingh
	BA Maboza
Municipal manager	TP Masejane
Chief financial office	SA Nyapholi
Director corporate services	NM Litabe
Director community services	MM Lesoetsa
Director technical services	BA Masuku

41. Related parties (continued)

Remuneration of councillors

2019

		Basic salary	Allowances	Funds	Total
ME Tsoene	Mayor	649 657	120 201	97 734	867 592
MJ Moduka	Speaker	499 531	107 391	98 407	705 329
YJ Jacobs	Chief whip	231 105	122 942	34 785	388 832
MP Nakalebe	Councillor	188 984	120 636	65 704	375 324
NJ Thaisi	Councillor	222 512	120 636	33 764	376 912
KI Tigeli	Councillor	196 901	120 636	61 410	378 947
GM Seoe	Councillor	220 892	120 636	37 192	378 720
DT Molefe	Councillor	202 177	103 805	62 202	368 184
BE Meya	Councillor	153 595	103 805	47 685	305 085
BM Sani	Councillor	137 459	103 805	68 416	309 680
T Halse	Councillor	231 105	122 942	34 785	388 832
DJ Hattingh	Councillor	174 795	103 805	26 310	304 910
LP Moletsane	Councillor	187 502	103 805	32 158	323 465
SQG Gaba	Councillor	153 373	103 805	46 173	303 351
RT Mpakathe	Councillor	174 795	103 805	26 310	304 910
SJ Moses	Councillor	174 795	103 805	26 310	304 910
BA Maboza	Councillor	173 401	103 805	26 310	303 516
		3 972 579	**1 890 265**	**825 655**	**6 688 499**

Notes to the Financial Statements

41. Related parties (continued)

2018

		Basic salary	Allowances	Funds	Total
ME Tsoene	Mayor	645 500	109 701	85 112	840 313
MJ Moduka	Speaker	498 113	93 041	88 477	679 631
YJ Jacobs	Chief whip	235 267	110 942	29 709	375 918
MP Nakalebe	Councillor	188 476	108 636	69 725	366 837
NJ Thaisi	Councillor	228 669	108 636	28 837	366 142
KI Tigeli	Councillor	201 919	108 636	55 850	366 405
GM Seoe	Councillor	228 669	108 636	28 837	366 142
DT Molefe	Councillor	153 874	91 805	49 483	295 162
BE Meya	Councillor	159 818	91 805	43 354	294 977
BM Sani	Councillor	160 498	91 805	66 441	318 744
T Halse	Councillor	235 267	110 942	29 709	375 918
DJ Hattingh	Councillor	180 501	91 805	22 471	294 777
LP Moletsana	Councillor	180 501	91 805	22 219	294 525
SQG Gaba	Councillor	168 705	91 805	34 267	294 777
RT Mpakathe	Councillor	180 501	91 805	22 471	294 777
SJ Moses	Councillor	180 501	91 805	22 471	294 777
BA Maboza	Councillor	180 501	91 805	22 471	294 777
		4 007 280	**1 685 415**	**721 904**	**6 414 599**

Figures in Rand			2019	2018

42. Trade receivables from non-exchange

Net balance				
Gross balance	-	-	43 177 720	35 971 143
Allowance for impairment	-	-	(25 160 861)	(23 345 397)
	-	**-**	**18 016 859**	**12 625 746**

Analysis of balance not impaired by service type

	2019	2018
Rates		
Current (0 -30 days)	463 058	967 654
31 - 60 days	357 853	581 582
61 - 90 days	478 343	385 989
91 - 120 days	1 072 778	407 262
121 - 365 days	43 707	388 065
> 365 days	15 601 120	9 895 194
	18 016 859	**12 625 746**

Analysis of balance not impaired by customer classification

	2019	2018
Household/residential		
Current (0 -30 days)	239 024	535 436
31 - 60 days	159 968	234 976
61 - 90 days	146 058	80 179
91 - 120 days	575 323	115 821
121 - 365 days	5 620	94 916
> 365 days	837 438	1 094 755
	1 963 431	**2 156 083**
Industrial/commercial		
Current (0 -30 days)	127 381	192 406
31 - 60 days	106 883	110 050
61 - 90 days	166 635	69 793
91 - 120 days	520 915	61 738
121 - 365 days	36 615	66 434
> 365 days	4 862 658	1 855 395
	5 821 087	**2 355 816**
National and provincial government		
Current (0 -30 days)	96 705	239 811
31 - 60 days	91 005	236 556
61 - 90 days	165 653	236 016
91 - 120 days	921 809	229 701
121 - 365 days	1 472	226 715
> 365 days	9 901 523	6 945 046
	11 178 167	**8 113 845**

Reconciliation of allowance for impairment

	2019	2018
Balance at beginning of the year	(23 345 397)	(19 341 608)
Contributions to allowance	(1 818 536)	(4 003 789)
Debt impairment written off against allowance	3 072	-
	(25 160 861)	**(23 345 397)**

Notes to the Financial Statements

Figures in Rand	2019	2018

43. Prior period errors

Asset verification results
During the current year, management embarked on a process to verify its assets to ensure the existence, completeness and condition thereof. In addition the classification of certain assets and asset types were re-evaluated and corrections were identified. This included:
Retentions that were recognised at the wrong amount
Properties that were identified to have leases over it which were moved from Property, plant and equipment to Investment property
Depreciation that started late on a project.

Statement of financial position		
Propery, plant and equipment	-	(1 672 450)
Investment property	-	2 329 999
Payables from exchanges transactions	-	2 091 840
Accumulated surplus	-	(765 066)
Statement of financial performance		
Fair value adjustment	-	(52 066)
Depreciation	-	(10 628)
Loss on disposal of assets	-	15 932
Repairs and maintenance	-	(1 937 324)

Consumer debtor corrections
During the year and based on a number issues raised by the consumers, a number of corrections were made to individual consumer accounts for various reasons.This included:
An error was identified in the calculation for the bad debt impairment where VAT was excluded.
Interest was incorrectly charged on government accounts.
Revenue corrections were not made for cut-off.

Statement of financial position		
Receivables from exchange transactions	-	(3 889 738)
Receivables from non-exchange transactions	-	(612 012)
VAT receivable	-	21 397 617
Accumulated surplus	-	-
Statement of financial performance		
Service charges	-	2 248 696
Interest earned	-	3 172 182
Other income	-	(903 752)
Property rates	-	(6 375)
Debt impairment	-	(21 937 617)

Reconciliation of payable accounts and sub-accounts
Management identified a number of errors in respect to the previous financial year a part of supplier credit management. This included a the receipt of a grant that was treated incorrectly. These were corrected retrospectively.

Statement of financial position		
Other receivables from exchange transactions	-	(5 375 761)
Receivables from exchange transactions	-	(15 820)
VAT receivable	-	5 607 402
Cash and cash equivalents	-	1 164
Payables from exchange transactions	-	(760 154)
Payables from non-exchange transactions	-	240 865
Unspent grants	-	(272 100)
Accumulated surplus	-	690 048
Statement of financial performance		
Dividends received	-	(1 164)
Other income	-	272 100

Figures in Rand	2019	2018

43. Prior period errors (continued)

Finance costs	-	47 347
Debt impairment	-	15 820
Bulk purchases	-	(539 518)
Repairs and maintenance	-	30 105
General expenses	-	59 665

Reclassifications made to the annual financail statements

During the preparation of the 2019 Annual Financial Statements, a number of reclassifications were made to ensure that the statements are fairly presented.

Statement of financial position		
Other receivables from exchanges	-	79 433
Other receivable from non-exchange	-	(50 759)
Payables from exchange	-	404 318
Payables from non-exchange	-	(431 991)
Consumer deposits	-	(1 000)
Statement of financial performance		
Property rates	-	1 437
Interest earned - consumer debtors exchange	-	(25 850 928)
Interest earned - consumer debtors non-exchange	-	(1 498 556)
Interest earned - external investments	-	27 349 484
Service charges	-	14 739 831
Subsidies and indigent support	-	(14 741 268)
Finance costs	-	(1 950 717)
Depreciation and amortisation	-	(1 545)
Impairment loss	-	1 545
Repairs and maintenance	-	6 676 066
Rental of equipment and vehicles	-	(90 720)
Employee related costs	-	3 817 827
Remuneration of councillors	-	89 125
Increase / (decrease) in provisions	-	984 230
Bulk purchases	-	1 688 925
General expenses	-	(7 601 053)
Actuarial gains/losses	-	(3 613 684)

44. Risk management

Financial risk management

The municipality’s activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

The municipality’s overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the municipality’s financial performance. The municipality uses derivative financial instruments to hedge certain risk exposures. Risk management is carried out by a central treasury department (entity treasury) under policies approved by the accounting officer. Municipality treasury identifies, evaluates and hedges financial risks in close co-operation with the municipality’s operating units. The accounting officer provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

Liquidity risk

The municipality’s risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

44. Risk management (continued)

Credit risk

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The utilisation of credit limits is regularly monitored. Sales to retail customers are settled in cash or using major credit cards. Credit guarantee insurance is purchased when deemed appropriate.

45. Going concern

We draw attention to the fact that at 30 June 2019, the municipality had an accumulated surplus (deficit) of R 858 184 862 and that the municipality's total assets exceed its liabilities by R 858 184 862.

The municipality's current liabilities exceeds it current assets by R 154 463 915. The municpality has been deducting pension, medical aid and pay as you earn from employees' salaries, but has not paid over R 3 067 489 (2018: R 11 979 826) of the amounts deducted to the relevant third parties. Outstanding amounts for bulk purchases included Eskom for electricity of R 179 133 293 (2018: R 135 354 844) and Bloemwater for water of R 1 717 800 (2018: R 293 770).

Management considered the following matters relating to the going concern assumption:

The financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

The municipality’s budget is subjected to a very rigorous independent assessment process to assess its cash-backing status before it is ultimately approved by Council.

As the municipality has the power to levy fees, tariffs and charges, this will result in an ongoing inflow of revenue to support the ongoing delivery of municipal services. Certain key financial ratios, such as liquidity, cost coverage, debtors’ collection rates and creditors’ payment terms are closely monitored and the necessary corrective actions instituted.

The ability of the municipality to continue as a going concern is dependent on a number of factors. The most significant of these is that the accounting officer continue to procure funding for the ongoing operations for the municipality.

The municipality is currently experiencing financial difficulties. Indicators of the financial problems are:

1. Deficit of R 40 952 719 (2018: R 88 390 055) was realised, Government grants and subsidies contributed R 143 676 253 (2018: R 114 194 194).
2. The creditors are not paid within 30 days as required by the MFMA due to cash constraints.
3. Employee benefits are unfunded.
4. High levels of distribution losses
5. Slow collection and low recoverability of outstanding consumer accounts A provision for doubtful debt amounting to R 372 739 261 (2018: R 289 450 881) has been disclosed in the financial statements.
6. Unfavourable ratios included the current and acid test ratios are below the required ratio of 2:1 and 1:1, respectively.

The following mitigating factors have been taken into account in concluding that the municipality remains a going concern:
1. The municipality falls within the local government sphere.
2. No intention by government has been identified that indicates the discontinuing of financial assistance through the provision of government grants.
3. The municipality has not been placed under any administration for the 12 months ending 30 June 2019.
4. The municipality has no unspent grants for the current year (2018: R 346 009).

Figures in Rand	2019	2018

46. Unauthorised expenditure

Open balance	266 457 231	96 701 149
Current year expenditure	114 729 650	169 756 083
Written off by council - 2016/2017 year	(96 701 149)	-
Written off by council - 2017/2018 year	(169 756 083)	-
	114 729 649	**266 457 232**

47. Fruitless and wasteful expenditure

Open balance	20 235 940	4 619 921
Current year expenditure	20 198 733	15 616 019
Written off by council - 2016/2017 year	(4 619 921)	-
Written off by council - 2017/2018 year	(15 613 463)	-
	20 201 289	**20 235 940**

48. Irregular expenditure

Open balance	17 993 731	6 907 126
Current year expenditure	745 272	1 894 934
Identified in the current year for prior periods	460 828	9 191 671
Written off by council - 2016/2017 year	(6 907 126)	-
Written off by council - 2017/2018 year	(1 603 236)	-
	10 689 469	**17 993 731**

Subsequent to the investigation in respect of the fruitless and wasteful expenditure referred to, civil proceedings have commenced against the employees concerned to recover an amount of R 2 556. According to Council's legal advisors, it is probable that the proceedings will result in the recovery of the full amount but this recovery is virtually certain.

49. Additional disclosure in terms of Municipal Finance Management Act

Audit fees

Open balance	2 335 953	1 755 576
Current year fee	4 563 776	4 912 201
Grants	(3 170 843)	(500 000)
Amount paid - current year	-	(2 076 248)
Amount paid - previous years	-	(1 755 576)
	3 728 886	**2 335 953**

PAYE and UIF

Open balance	10 903 554	5 175 040
Current year expenditure	12 310 192	11 361 804
Amount paid - current year	(19 138 868)	(7 602 498)
Penalties and interest	905 248	1 969 208
	4 980 126	**10 903 554**

Pension and Medical Aid Deductions

Open balance	1 076 272	3 289 026
Current year contributions	27 296 616	22 869 669
Amount paid - current year	(30 285 525)	(25 082 423)
	(1 912 637)	**1 076 272**

Notes to the Financial Statements

Figures in Rand	2019	2018

49. Additional disclosure in terms of Municipal Finance Management Act (continued)

VAT

	2019	2018
VAT receivable	28 416 684	28 271 668

All VAT returns have been submitted by the due date throughout the year.

Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2019:

30 June 2019	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
ME Tsoene	327	(5 658)	(5 331)
MJ Moduka	5 310	3 017	8 327
YJ Jacobs	1 441	448	1 889
MP Nakalebe	569	(1 408)	(839)
NJ Thaisi	534	(1 170)	(636)
KI Tigeli	1 791	6 274	8 065
GM Seoe	1 048	-	1 048
DT Molefe	1 843	10 557	12 400
BE Meya	534	(2 614)	(2 080)
BM Sani	1 661	815	2 476
T Halse	928	(69)	859
DJ Hattingh	2 345	4 323	6 668
LP Moletsane	1 207	-	1 207
SQG Gaba	493	(3 576)	(3 083)
RT Mpakathe	581	(671)	(90)
SJ Moses	3 180	3 187	6 367
BA Maboza	385	(15 241)	(14 856)
	24 177	**(1 786)**	**22 391**

30 June 2018	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
ME Tsoene	3 205	-	3 205
MJ Moduka	1 274	(1 600)	(326)
YJ Jacobs	503	(1 410)	(907)
MP Nakalebe	748	(1 989)	(1 241)
NJ Thaisi	503	(1 997)	(1 494)
KI Tigeli	1 265	-	1 265
GM Seoe	521	(445)	76
DT Molefe	2 150	9 621	11 771
BE Meya	763	(3 998)	(3 235)
BM Sani	850	-	850
T Halse	1 519	(69)	1 450
DJ Hattingh	2 503	4 024	6 527
LP Moletsane	1 795	(4 672)	(2 877)
SQG Gaba	473	(1 805)	(1 332)
RT Mpakathe	527	(1 566)	(1 039)
SJ Moses	3 457	1 182	4 639
BA Maboza	365	(5 860)	(5 495)
	22 421	**(10 584)**	**11 837**

Figures in Rand	2019	2018

50. Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the accounting officer and includes a note to the financial statements.

Deviations totaling R 2 857 537 (2018: R 53 408), were incurred and reported during the financial year in accordance with the aforementioned legislative requirements. These consisted of deviations for emergency cases (i.e. transactions relating to pipe and sewer bursts and water pump repairs), procurement from sole providers(transactions relating to strips and quotes) and deviations that pertain to SCM regulations (obtaining three quotations) that could not be followed due to a various reasons.

51. Distribution losses

	2019	2018
Electricity	14 481 826	13 348 706
Water	1 573 394	1 910 291
	16 055 220	**15 258 997**

Electricity
The municipality purchased 40 894 445 (2018: 42 555 914) units during the financial year and sold 26 766 040 (2018: 29 218 193) units during the year. Distribution losses at an estimated 34% (2018: 31%).
Reasons for incurring electricity losses relates to the dissipation when electricity flows through the conductors, illegal connections, meter tampering and incorrect meteringt

Water
The municipality purchased 4 357 325 (2018: 4 194 522) units during the financial year, of which a total of 2 735 270 (2018: 2 225 149) units were sold. This represents a loss of 1 622 055 (2018: 1 969 373) units at an estimated 37% (2018: 47%). Water losses are the result of burst pipes, water provided but not metered, illegal connections, meter tampering.

52. Centlec arrangement

The municipliaty and Centlec (SOC) Ltd has entered into an agreement in terms of which Centlec manages, delivers and maintains all aspects of electricity sales, the associated debt collection and maintenance of the electricity network.

Centlec has, and will have, no title, ownership, lien, leasehold rights or any right of limited ownership in respect of the Network or any part thereof. Title to the Network, including all improvements thereto from time to time, shall at all times vest and remain vested in Mantsopa.

The agreement became effective on 1 July 2018 and shall endure until 30 June 2022, extending on the previous agreement to transact on prepaid electricity sales on behalf of the municipality.

Transactions undertaken by Centlec as the agent on behalf of the municipality include the sale of electricity both on credit and pre-paid, expenses to maintain the network, commission fees to resellers of electricity, assets purchased and installed on bahalf of the municipality and the collection of the debtors book.

Figures in Rand	2019	2018

52. Centlec arrangement (continued)

Revenue charged on behalf of the municipality		
Revenue	37 576 736	10 789 958
Other income - connections	89 763	129 753
Interest	217 266	-
Expenses incurred and assets purchased on behalf of the municipality		
Debt impairment	(877 579)	-
Repairs and maintenance	(470 505)	(423 482)
General expenses	(539 850)	(354 417)
Infrastructure assets	1 366 046	2 297 356
Assets and liabilities held on behalf of municipality		
Trade receivables	15 499 556	-
Receivable from Centlec	2 275 670	4 508 494
Vat payable	(6 011 073)	-
Consumer deposits	(342 537)	-
Charges to the municipality		
Management fee	164 405	27 078

53. Subsequent events

The following events were identified and disclosed after reporting date:

During July 2019, management identified fraud on the ABSA travel card which was reported during August 2019.
An amount of R 308 268 was recovered from ABSA and the receivable was included in the balance of the travel card note 4

The legal claim against the municipality was settled in favour of the plaintiff Seabata Monyane and the legal claim of R 230 000 has been disclosed in note 19.

54. Budget differences

Material differences between budget and actual amounts

Statement of financial performance

Service charges
Strategies to increase cash collections included converting consumers to pre-paid electricity. The result from this was much better than expected.

Other income
Connections were budgeted as R 9 million but due to the new strategies implemented by debt collections, reconnections were much lower than budgeted as consumers were converted to pre-paid electricity sales.

Rates
The budget for rates was based on the total of the valuation roll, but as part of the reconciliation certain revenues had to reversed.
Grants and subsidies
The budget does not includes the R 3 million grant paid directly to the Auditor General and a grant of R 1 million from Teta.

Repairs and maintenance
The budget for repairs and maintenance is included in General expenses

Depreciation
The municipality did not appropriately budget for depreciation.

Debtors impairment
The municipality is in the process of cleansing debtors data as part of revenue enhancement strategies. As part of this process accounts are reviewed and billings accordingly updated. This resulted in an higher than expected debt impairment.

54. Budget differences (continued)

Bulk purchases
The differences relates to higher than expected electricity purchases.

Contracted services
The budget for contracted services includes audit fees of R 4.5 million and consulting fees of R 5.6 which is included general expenses for financial statement purposes.

Finance cost and General expenses
The budget for finance costs is included in general expenses for budget purposes. While contracted services and consulting fees was included in contracted services.

Actuarial gains
Actuarial gains are not considered for budget purposes as it is a non cash item that is determined by a specialist.

Statement of financial position

VAT receivable
VAT receivable difference in budget relates to the higher than expected balance from trade payables.

Trade receivables
Trade receivables are lower than expected due to the debt impairment which is higher than expectd.

Investment property
Investment property is higher than expected due to properties that were expected to be derecognised in the current year, as the properties are in the name of the municipality but future economic benefits is unclear.

Property, plant and equipment
The difference in Property, plant and equipment is the result of budgeting the incorrect amount for depreciation.

Payables from exchange
The Eskom debt increased more than expected, while cash flow constraints resulted in payables not being paid as planned.

Payables from non-exchange
This relates debtors with credit balances which is not budgeted for.

Employee benefits and Provisions
The budget for employee benefits and provisions was not updated per the prior year expectation by error.

Cash flow statement

Sale of goods and services
Cash flow is lower than expected due to the lower than budgeted debt collection.

Employee costs
Management planned to settle the majority of the amounts owing to third parties. This did not materialise due to cash flow constraints.

Suppliers and Finance costs
Cash paid to suppliers is lower than expected due to cash flow constraints.

Property, plant and equipment
Purchases is lower than planned due to strategies to increase cash flow.